Public Policy Initiatives of

Governor Paul E. Patton

October 2003

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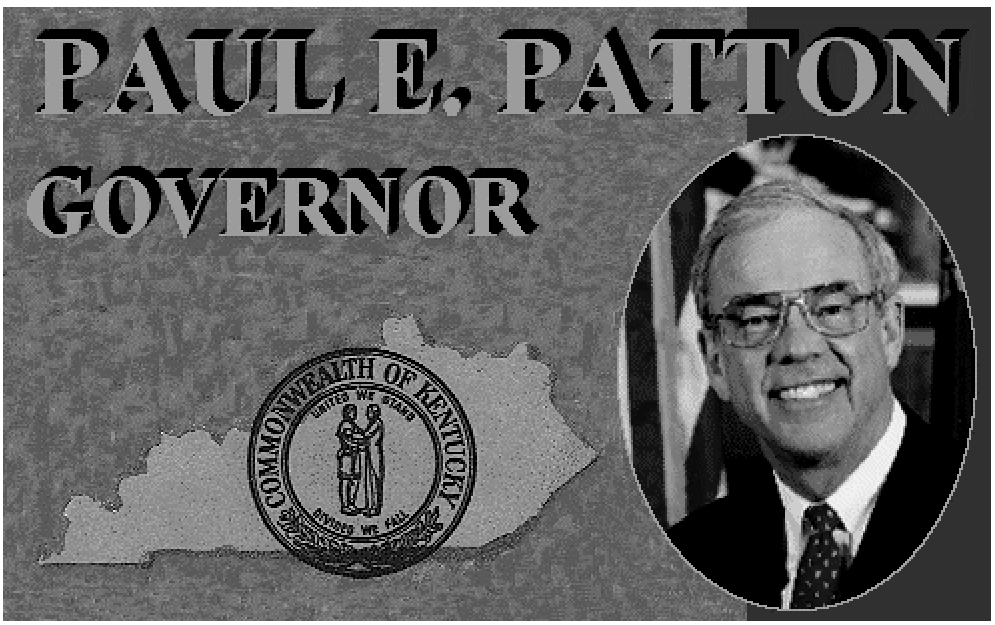

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PREFACE

Governor Paul Patton has set a new benchmark for energy and vision in the Office of the Governor. Early in his administration he established a working relationship based on mutual respect with the General Assembly and championed and won passage of landmark reform initiatives in the areas of higher education, workers compensation, early childhood development, and crime.

Governor Patton established an ambitious overall goal for his tenure as Governor: *"To set Kentucky on a path to achieving economic opportunity and a standard of living above the national average in 20 years,"* has been the guidepost for the Administration. It is a goal that will not be achieved during his term in office, but sets the Commonwealth on the road to fundamentally altering the course of this state's history and improving the lives of Kentuckians.

In order to achieve this ambitious goal, the public and private sectors and all regions of the state must work together. If the citizens of Kentucky are to achieve and exceed the economic standard of living enjoyed by other United States citizens, our Commonwealth will need the energy and commitment of the private sector interacting with state and local governments and effective leadership from state and community leaders.

There are many indices of economic opportunity and standard of living, such as per capita income, median household income, health statistics, percentage of population below the poverty level, crime rates, educational attainment levels, gross state product, and home ownership. One of the goals of the Patton Administration was to establish a rational evaluation of where Kentucky ranks among its peer states by determining relevant benchmark statistics and continually assessing our relative progress.

Per capita income is a commonly used indicator of economic well being, but other factors including those mentioned above also provide valuable information for state comparisons as well. Historically, Kentucky's per capita personal income has lagged behind the nation due to a myriad of factors such as: a predominately rural environment and remote location relative to centers of economic activity; fluctuations and decline of the coal sector; the decline in the relative economic importance of the agricultural sector; the lack of research and development facilities; the lack of corporate headquarters; the historical low investment in human capital; and the low educational attainment of its citizens.

Kentucky's relative per capita personal income has varied from approximately 78 to 82 percent of the national average over the last two decades. This historical record of "less than the national average per capita personal income" performance is also characteristic of the majority of the other southern states. Bypassed by the rapid growth realized by much of the rest of the nation as the United States emerged as an industrial power, states of the South have struggled to increase their economic opportunities, raise their growth rates and economic standard of living. More recently, the South as a region has made progress in breaking out of its historical economic performance trend and has been closing the economic performance gap with the rest of the nation. Selected states, such as Georgia, have realized rapid growth as United States industry leaders improved their view of the South and major corporations and foreign investors began focusing on investments in the South rather than other areas of the nation and beyond. As a result of the regionalized advancement, the Southeast has realized a gain in its overall per capita income average from about 81.5 percent of the national average in 1970 (slightly higher than Kentucky's at that time) to 89.8 percent in 2002[1]. At the same time, many other states in the Southeast, like Kentucky, continue to struggle to enhance their relative standard of living.

To enhance the attainment of the broader goals of Governor Patton's administration, he identified six priority policy areas that play integral roles in enhancing Kentucky's economic opportunity and increasing Kentucky's standard of living to above the national average. These priority areas are: 1) promoting economic development; 2) improving the product of our educational system; 3) building self-sustaining families; 4) strengthening the efficiency and operations of government; 5) reducing crime and its costs to society; and 6) improving the quality of life.

This policy binder summarizes the particular policy initiatives of the Patton Administration, and lists each under the appropriate policy area. By organizing the Governor's priorities this way, it becomes easy to see how each initiative relates to the Governor's overall vision of a better and more prosperous future for Kentucky.

Also categorized in these areas of focus are selected indicators the Patton Administration has chosen to measure progress toward its overall goal. The indicators mostly are long-term measure in which it will take time to show significant progress. Included in this document is a description of each of the measures as well as a snapshot of where Kentucky stands relative to the beginning of the administration, and where applicable, where we stand relative to the nation as a whole.

This document is the final version and update of a "policy binder" which has been produced and updated throughout the Patton Administration. Its original intended use was to be a desk reference for policy makers and program administrators in the Executive Branch to communicate throughout state government the efforts of each Cabinet and Agency toward meeting the overall goal for the state. As the Patton Administration comes to an end, this document chronicles the primary achievements of State Government and the Administration during the Patton years, December 1995 – December 2003.

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[1] U.S. Department of Commerce. Bureau of Economic Analysis figures

Governor Patton's National Leadership Roles

Governor Patton has actively championed Kentucky's new era of progress outside the borders of our state. Not only is Governor Patton the first governor in history who has succeeded himself, but he is also a recognized national leader, especially in the areas of education, transportation, and economic development. The following is a list of Governor Patton's appointed or elected national and regional leadership positions throughout his tenure.

National Governors Association (NGA)

- Chairman, July 2002 – August 2003
- Vice Chairman, August 2001 – July 2002
- Chairman, NGA Center for Best Practices Board, August 2001 – July 2002
- Executive Committee Member
- Lead or Co-lead Governor on four issue or special committees (Transportation Task Force, Improving Higher Education Committee, Education Technology Committee and Economic Development Committee)
- Ex-officio member on all NGA Standing Committees and Task Forces

Democratic Governors' Association (DGA)

- Chairman, 2000
- Vice Chairman, 1999
- Executive Committee Member
- Finance Committee Member

Southern Governors' Association (SGA)

- Chairman, 2000-2001
- First Vice Chairman, 1999-2000
- Second Vice Chairman, 1998-1999

Midwestern Governors' Conference

- Member

National Education Goals Panel

- Chairman, February 1999-February 2000

Council of State Governments

- President, 2000
- President Elect, 1999

National Commission on the High School Senior Year
Chairman, July 2000 – July 2001

Education Commission of the States
Chairman, 1999

Southern Growth Policies Board
Chairman, 1997-1998
Executive Committee, 1998-1999

Appalachian Regional Commission
States' Co-Chair, 2001

Southern States Energy Board
Executive Committee Member, 2000

Southern Regional Education Board
Chairman, 1997-98
Executive Committee, 1998-1999

Interstate Mining Compact Commission
Vice Chair, 2002

GOAL:
Set Kentucky on the path to achieving economic opportunity and a standard of living above the national average in 20 years.

Performance Indicators

Promoting Economic Development

Performance Indicators

- Per Capita Income adjusted for cost of living differences
- Unemployment Rate by County – number of counties above and below the national average

Improving Education Product

Performance Indicators

- High School Graduation Rate
- Literacy Rate
    - GED attainments
    - Participation in Adult Education Programs
- % of Population aged 25 – 65 with a bachelor's degree or higher
- Total undergraduate postsecondary enrollment

Building Self-Sustaining Families

Performance Indicators

- % of Kentuckians with Health Insurance
- Poverty Rate
- Indicators of Well Being of Children

Strengthening Efficiency and Operations of Government

Performance Indicators

- State's Bond Rating
- Government Performance Project Grades:
    - Financial Mgt.
    - Capital Mgt.
    - Human Resources
    - Managing for Results
    - Information Technology

Reducing Crime and its Costs to Society

Performance Indicators

- Crime Rate
- Substance Abuse Indicator
- Corrections System Recidivism Rate

Improving Quality of Life

Performance Indicators

- # of Dump Free Counties
- % of Homes in Kentucky with Potable Water
- # of Counties with Comprehensive Planning Processes
- # of Communities actively engaged in Downtown Revitalization Efforts
- Per Capita Participation in Cultural Activities

GOAL:
Set Kentucky on the path to achieving economic opportunity and a standard of living above the national average in 20 years.

Strategies

Promoting Economic Development

- Workers Compensation
- Regional Industrial Parks
- Statewide Infrastructure Improvements
- Transportation Planning and Infrastructure
- Tourism Tax Credits
- Kentucky Appalachian Development Strategy
- Military Affairs Commission
- Skills Training and Investment Credit
- Venture Capital Fund
- UI Tax Restructuring
- New Economy Initiative
- Coal Recovery Plan
- Economic Opportunity Zone Initiative
- Economic Development Modernization
- Sustaining Agricultural Economy

Improving Education Product

- Postsecondary Education Reform
- KERA Support
- Budget Increases for Elementary and Secondary Education
- School Safety Initiative
- Guaranteed COLA for Teachers
- Kentucky Educational Excellence Scholarships
- Adult Education and Literacy
- "Go Higher, KY, Education PAYS!" Campaign
- Family Literacy
- Teacher Quality
- Efforts to Reduce Dropouts
- Family Resource and Youth Services Centers
- Area Tech Centers Reform

Building Self-Sustaining Families

- KIDS NOW Early Childhood Development
- Welfare Reform
- Children's Health Insurance
- Women's Health Initiative
- Child Abuse and Domestic Violence Services
- Health Insurance Reform
- Reductions in Teen Smoking
- Child Protective Services
- Affordable Housing
- Minority Initiatives
- Insurance Consumer Protection
- Health Department Support
- Substance Abuse
- Mental Health
- Medicaid Management
- Delinquent Child Support Enforcement

Strengthening Efficiency and Operations of Government

- Establishment of State Budget Principles
- EMPOWER Kentucky
- Technology Infrastructure in State Government and Schools
- Tax Fairness
- Personnel Reforms
- Promoting and Providing Diversity
- Kentucky Employee Advisory Council
- General Fund Revenue Adequacy

Reducing Crime and its Costs to Society

- Criminal Justice System Improvements
- Enhanced Salaries for Public Defenders
- Unified Criminal Justice Information System
- Corrections Improvements
- Reforming the Juvenile Justice System
- Strengthened Law Enforcement
- Enhanced Penalties for Hate Crimes
- Prescription Drug Tracking
- Homeland Security

Improving Quality of Life

- Renaissance Kentucky
- Water Resources Development Plan
- Artistic, Cultural, and Heritage Development
- Environmental Initiatives
  - Large Animal Feeding Regulations
  - Illegal Dump Enforcement
  - Solid Waste Legislation
- Energy Policy
- Forestry Initiative
- Smart Growth Strategy
- Security and Public Safety/Transportation

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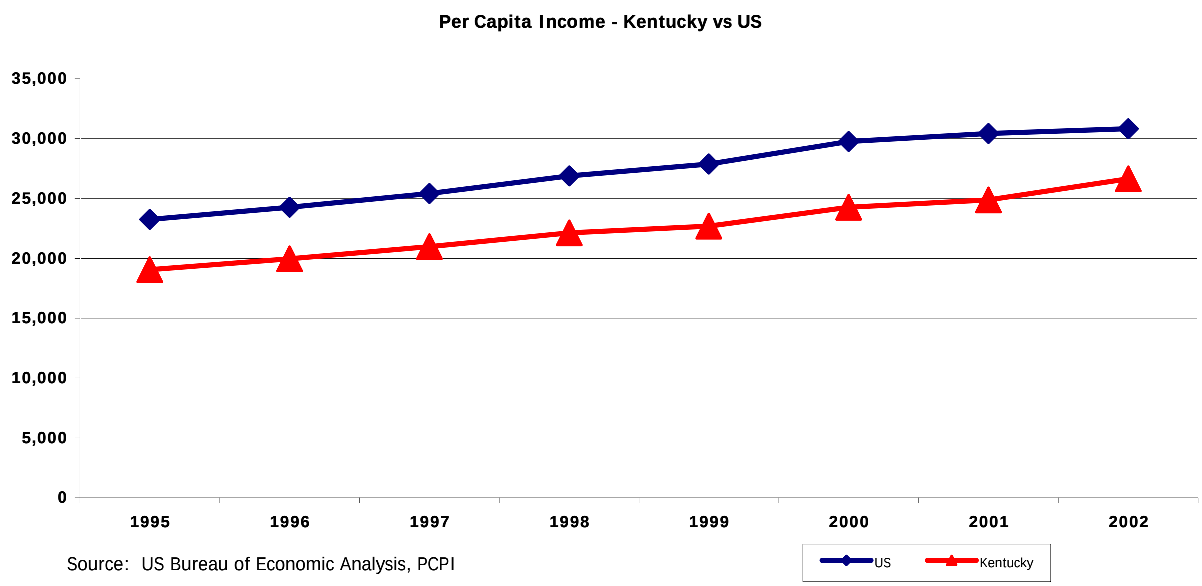
- Strengthening Efficiency and Operations of Government
- Reducing Crime and its Costs to Society
- Improving Quality of Life

PERFORMANCE INDICATORS
Promoting Economic Development

Per Capita Income

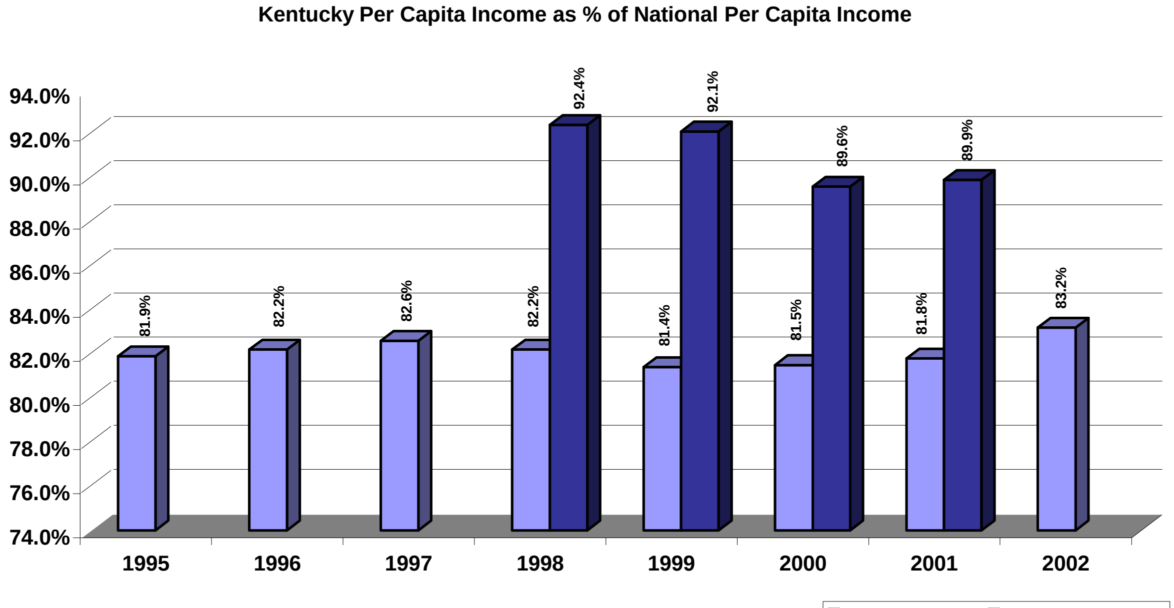
During the years of the Patton administration, Kentucky's per capita income has increased but has remained almost constant relative to the US average. In 2002 per capita income in the Commonwealth was 83.2 percent of the national average. Adjusting for the cost-of-living, the per capita income for Kentucky in 2002 was $28,194 or 91.4 percent of the national average.

While it is difficult to move closer to the national average in this key indicator, improvement in other statistics shows that Kentucky is moving in the right direction



Source: US Bureau of Economic Analysis, PCPI

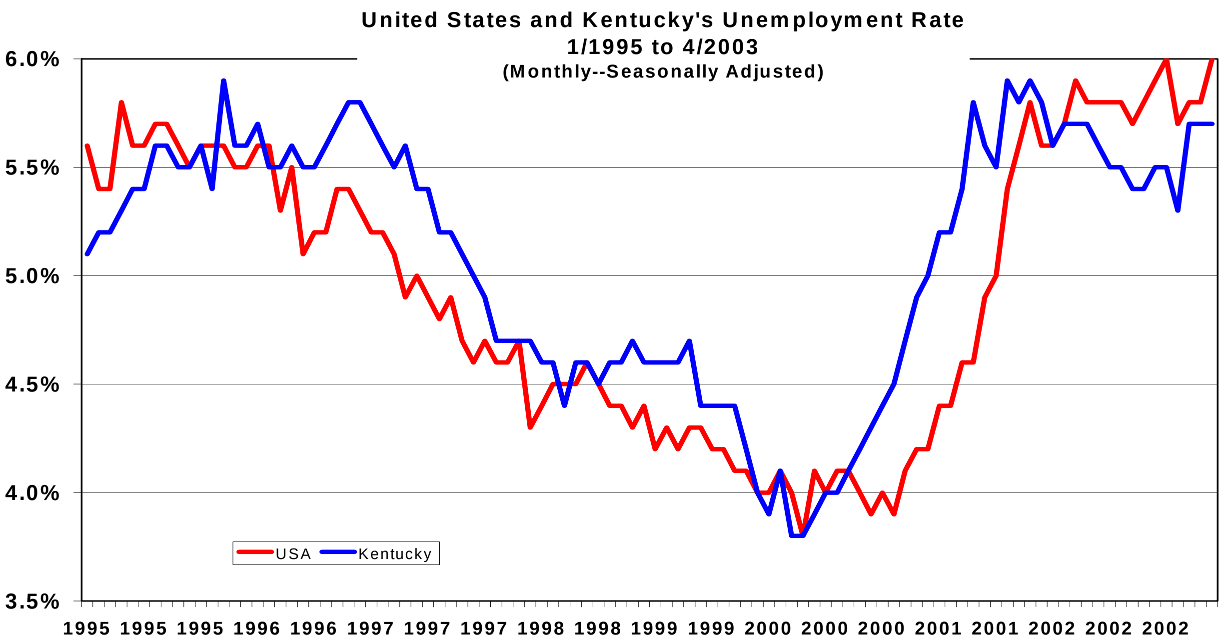
and is poised for future gains in per capita income. In a host of economic statistics, including export values, average wages and per capita gross state product, Kentucky is showing gains at a rate greater than the nation as a whole. Kentucky ranks in the top ten in the number of Incorporated 500 Companies per 10,000 business establishments. The presence of these "Fast 500" companies is important because they demonstrate a sign of entrepreneurial success. According to the Milken Institute these companies are "credited with finding a market with high growth potential and exploiting it." The state ranks in the top 20 for the number of high tech industries that are growing faster than the United States. Kentucky also ranks in the top ten in percent change for state appropriations for higher education. The policy infrastructure is now in place that will lead to narrowing the gap between the national per capita income average and Kentucky's.



Source: United States Bureau of Economic Analysis, PCPI

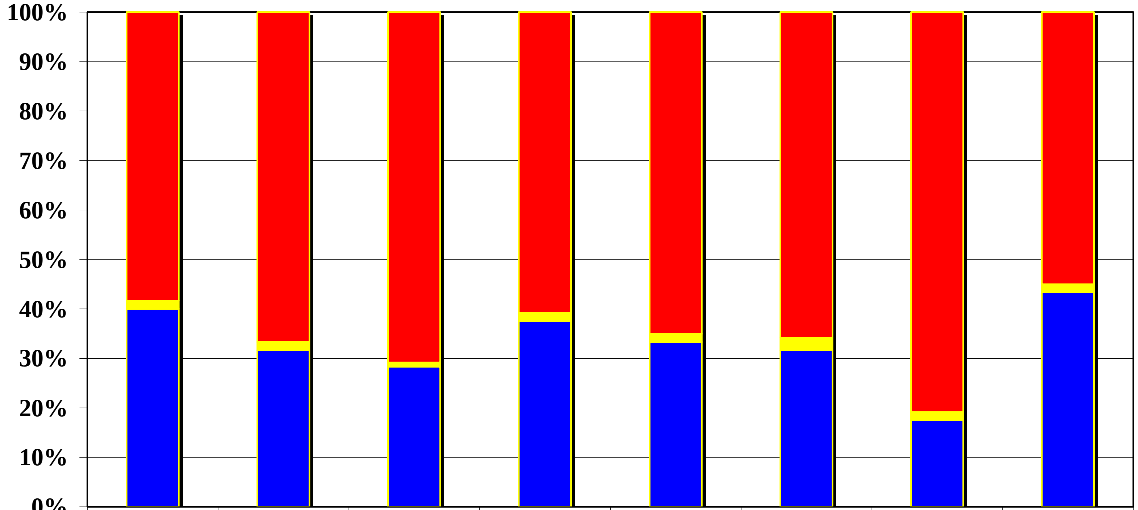
Unemployment Rate

Since 1995 Kentucky has virtually mirrored the national unemployment rate. However, there has been a great deal of disparity among the counties in the Commonwealth. Historically, more than half of Kentucky's counties have been above the national and state average unemployment rate. Great strides have been made to date in the areas of the state where opportunities existed to create new jobs and attract new 21st century businesses. The challenge now is to bring these opportunities to all parts of the Commonwealth.



Source: United States Bureau of Labor Statistis

Kentucky Counties Above and Below the National Unemployment Rate
1995 to 2002



	1995	1996	1997	1998	1999	2000	2001	2002
Above	70	80	85	73	78	79	97	66
Equal	2	2	1	2	2	3	2	2
Below	48	38	34	45	40	38	21	52

Source: United States Bureau of Labor Statistcis and the Kentucky Cabinet for Workforce Development, Department of Employment Services

The key to increasing the per capita income of Kentuckians and reducing the unemployment rate is the creation of a more highly skilled and better-educated workforce to meet the labor market demands of the 21st Century. The Administration has laid a solid foundation that will provide increasingly positive measures of success in the coming decade.

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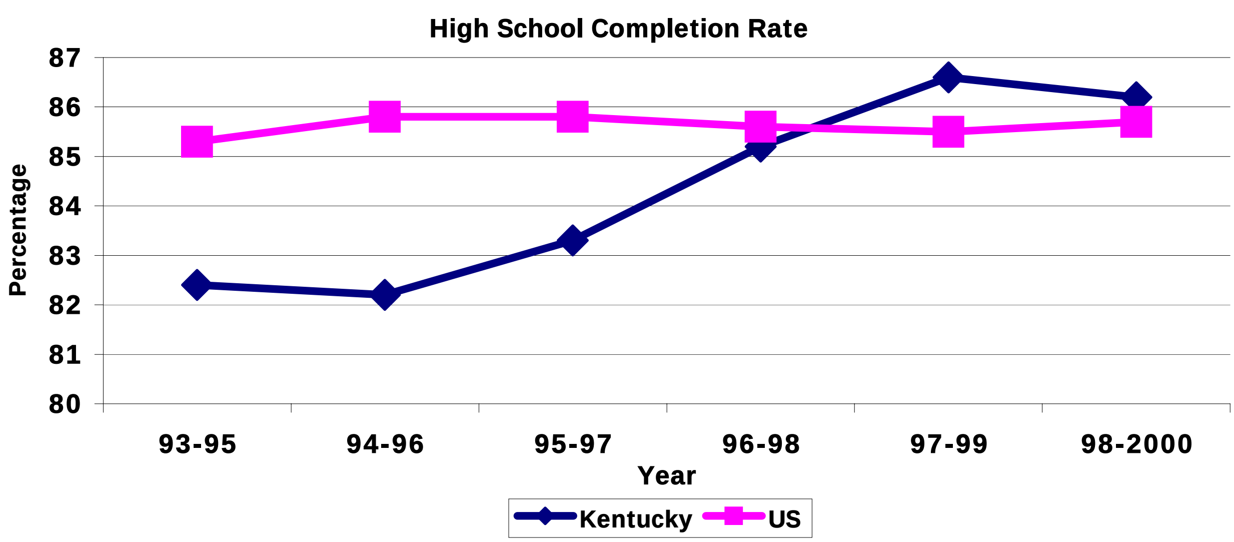
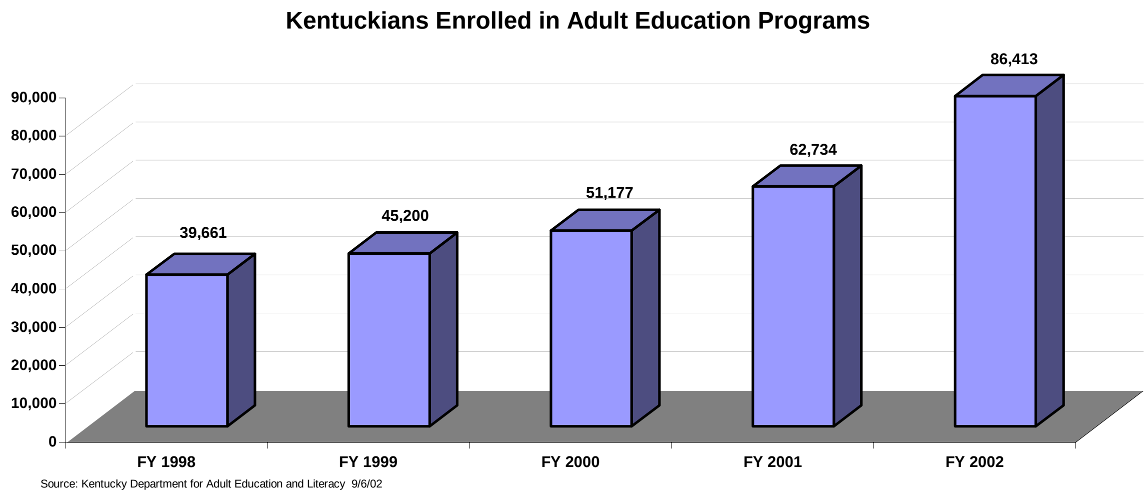
PERFORMANCE INDICATORS
Improving Education Product

High School Graduation Rate; Literacy Rate; Percent of Population with Bachelors Degree; Postsecondary Enrollment

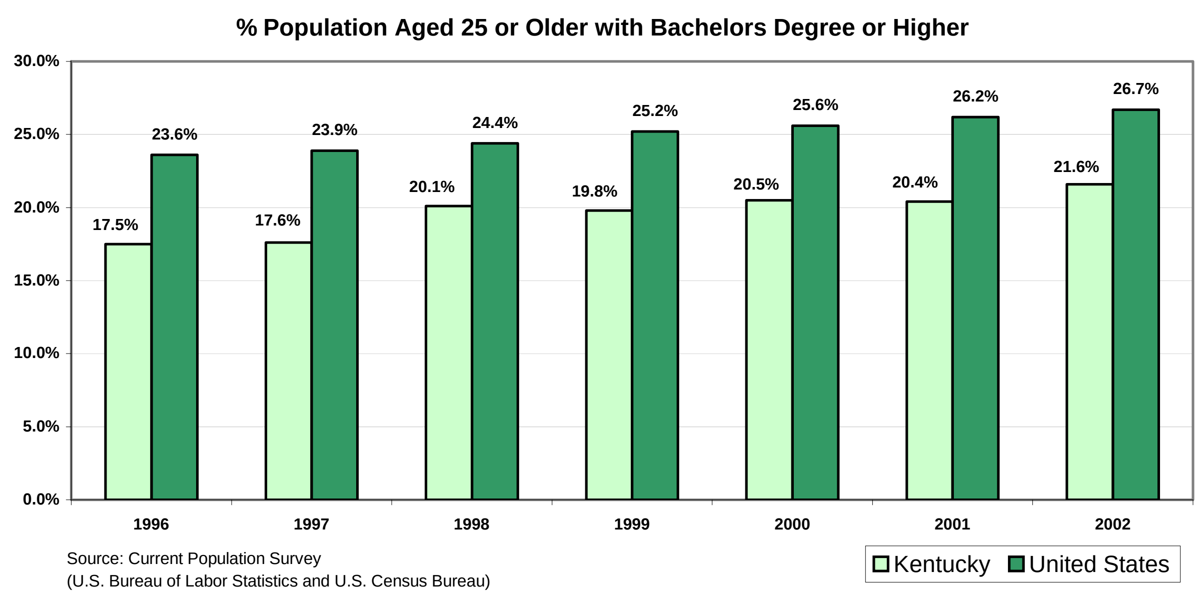
According to a report issued by the Kentucky State Data Center, "Kentucky's efforts toward statewide education reform at all levels, workforce development, and economic development are succeeding." In 1990 Kentucky ranked 49th among the 50 states in percentage of people with a high school diploma, 48th in those with a bachelors degree or higher, and 39th in graduate and professional degrees. Census data for 2000 shows the Commonwealth's position has remained the same for high school graduates, improved by one position to 47th for college graduation, and 38th for graduate or professional degrees. Although Kentucky's rankings did not change significantly, we did show considerable improvement between 1990 and 2000. Kentucky showed a marked educational improvement within the 25-34 age group, indicating that the state's gains have stemmed from significant educational progress among the younger adult population. Kentucky moved from 49th in the nation in 1990 to 35th in the nation in the number of 25-34 year olds completing high school. This age group is a key segment of our workforce and we are making progress in improving their lives and opportunities.

The percentage of Kentuckians with a high school diploma or higher went from 64.6 percent in 1990 to 74.1 percent in 2000. Enrollment in adult education programs was 86,413 in fiscal year 2001-02 (up from 62,734 in fiscal year 2000-01), surpassing the goal of 75,000 students. Recent figures from the Department for Adult Education and Literacy show that the number of Kentuckians earning a GED in fiscal year 2001-02 was 57 percent higher than in fiscal year 1999-2000, the sixth largest increase in the U.S. Many of these same individuals are now enrolled in postsecondary education programs.



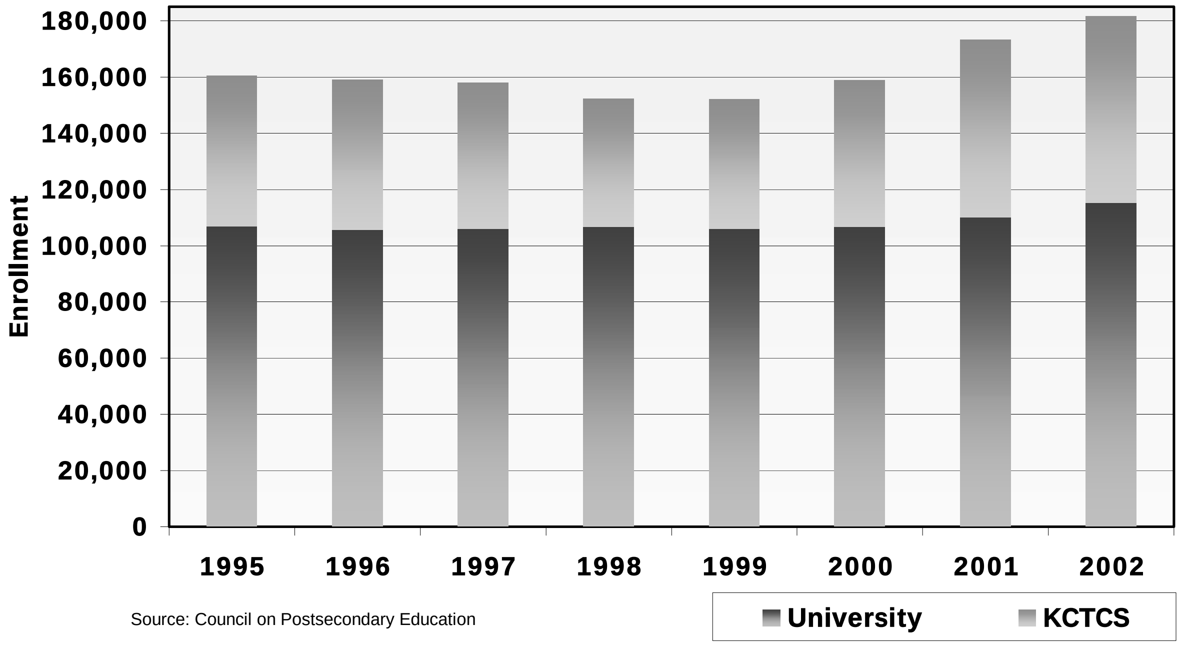


The progress in postsecondary education is even more impressive. According to the U.S. Census, between 1990 and 2000 the number of Kentuckians holding a bachelors degree or higher increased by 25 percent. Data from the Current Population Survey, a joint project by the Department of Labor and the Census Bureau, is reflected below and shows the steady improvement in percentage of population age 25 or older with a bachelors degree or higher.



Since 1998, enrollments in Kentucky's public colleges and universities have increased by almost 33,000, well on the way to achieving the goal of having 80,000 more students in the system by 2015.

Postsecondary Enrollment 1995-2002



Source: Council on Postsecondary Education

The education reform initiatives implemented over the past decade support the Patton Administration's total educational plan – to make every Kentuckian a life-long learner. Maintaining KERA and continuing to support measures to strengthen early childhood education, adult education and literacy, and postsecondary education will continue to improve opportunities for Kentuckians.

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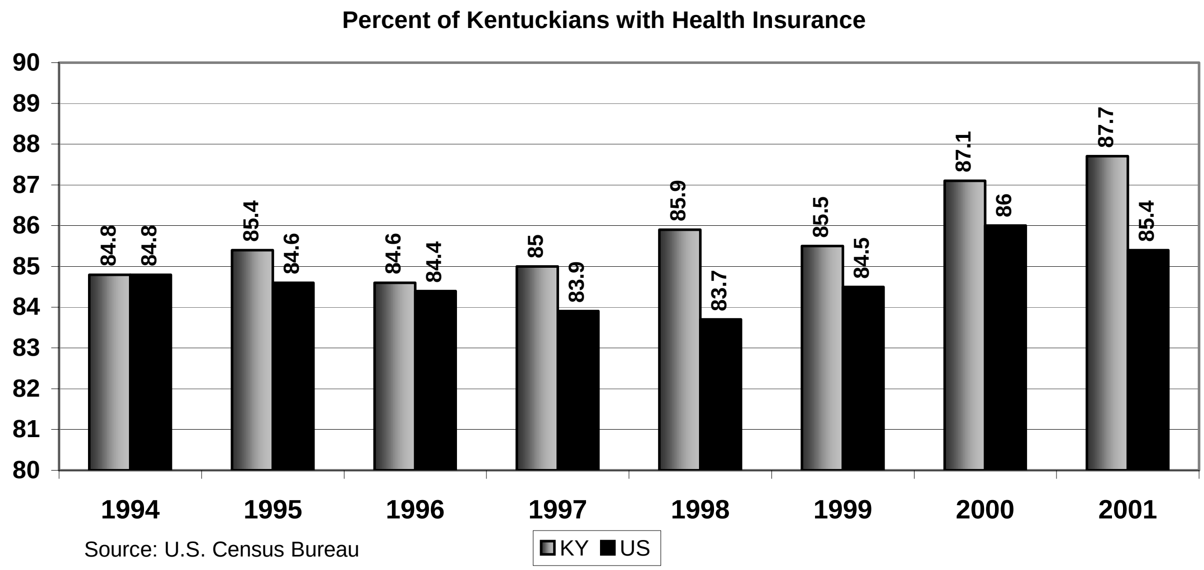
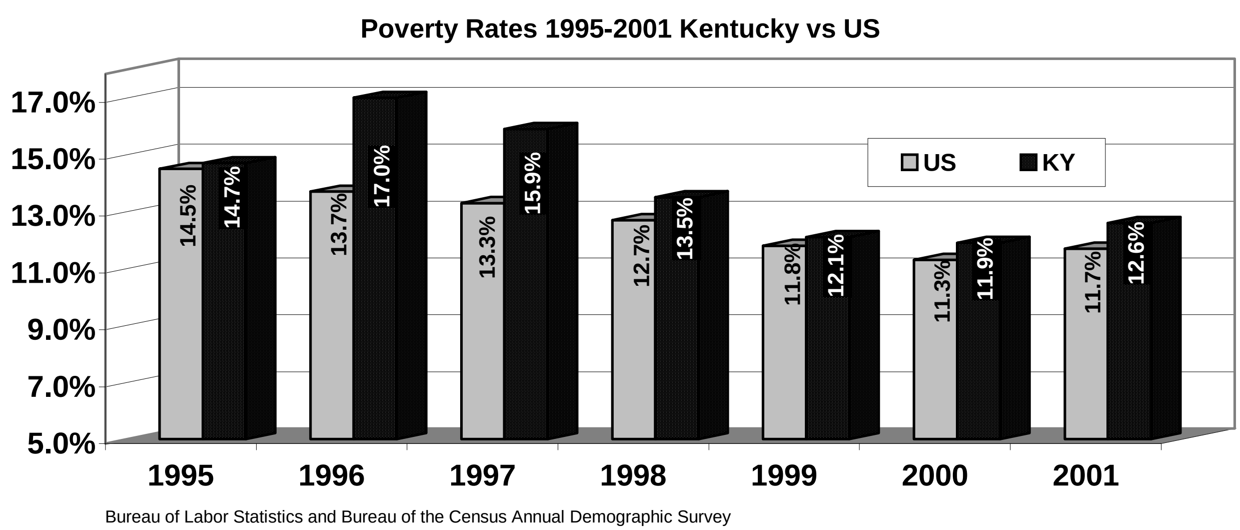
PERFORMANCE INDICATORS
Building Self-Sustaining Families

Percent of Kentuckians with Health Insurance – The overall number of Kentuckians with health insurance has shown minor fluctuations since 1994, experiencing a high in 2001 of 87.7 percent. However, the overall fluctuations have been statistically insignificant.

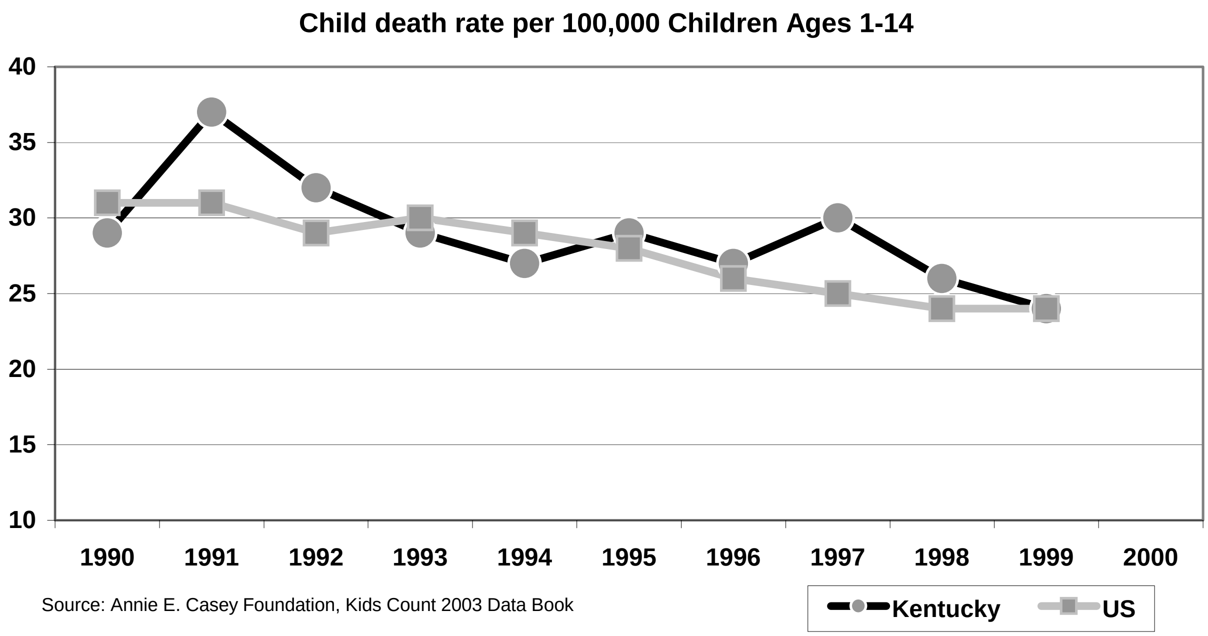


Poverty Rate – After spiking to a level of 17 percent in 1996, Kentucky's poverty rate has been steadily declining and now closely mirrors the national average. Of significance, is that Kentucky's rate of poverty of children significantly decreased more than 34 percent from 1993 to 1998.

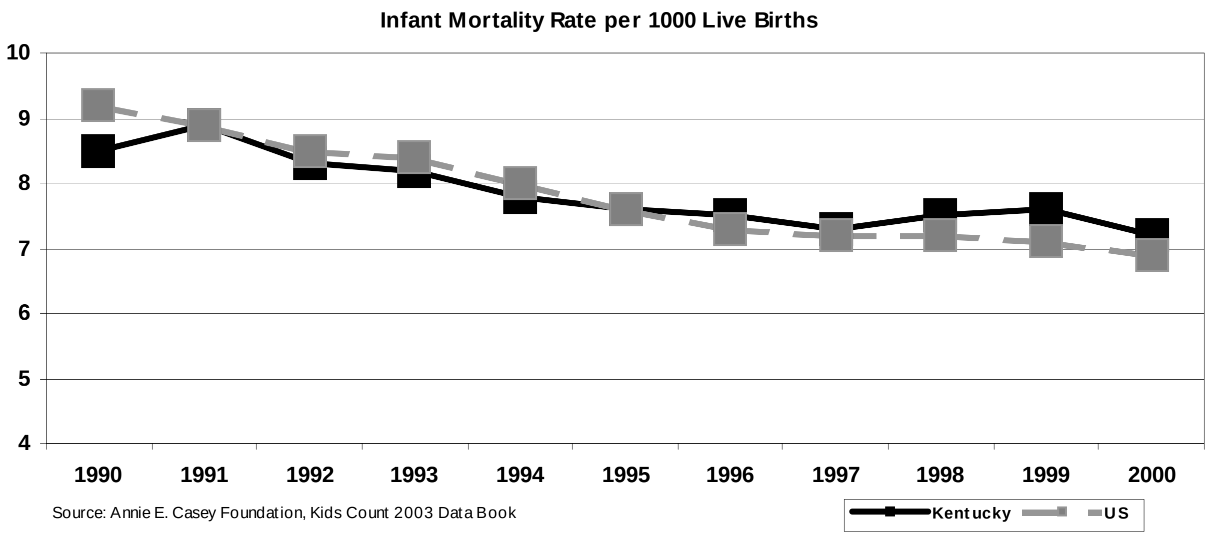


The Well-Being of Children – There have been significant gains related to child support in the areas of paternity establishments, child support orders, and child support collections which reflect the overall well-being of children in the Commonwealth. Collections of child-support payments increased 12 percent from fiscal year 1999-2000 to fiscal year 2000-01. More children were eligible for child support with the number of paternity establishments increasing by 2 percent, and child support orders for children placed in out-of-home care increasing by 19 percent during the same time period.

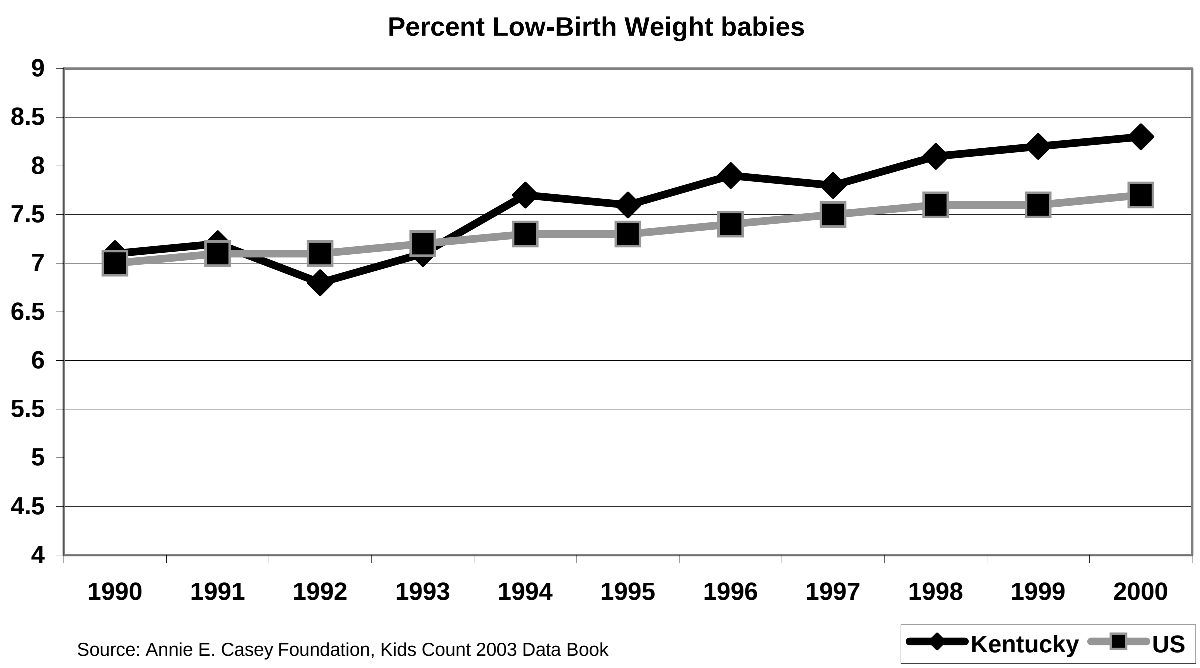
Child Death Rate – The child death rate is defined as any death of a child aged 1-14 divided by the total number of children aged 1-14 in the Commonwealth of Kentucky. For the year 2000, Kentucky's child death rate improved over the previous year (23 vs. 24/100,000 children aged 1-14) and a 20 percent decrease was observed in the rate from 1990-2000.



Infant Mortality Rate – The infant mortality rate is defined as the death of an infant less than one year of age divided by the total number of live births for the same reporting year. In the year 2000, Kentucky's infant mortality rate was 7.2/1,000 live births, an improvement from the previous year and is currently the lowest infant mortality rate Kentucky has exhibited.



Percent Low Birth Weight – Low birth weight is defined as any infant weighing less than 2,500 grams or 5.5 pounds at birth. Kentucky's incidence of low birth weights rose to 8.3 percent in 2000. It is hopeful that this condition will improve over the next few years.



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PERFORMANCE INDICATORS
Strengthening Efficiency and Operations of Government

Bond Ratings

During the past ten years, the Commonwealth's bond credit rating on appropriation supported debt was upgraded by all three credit agencies and obtained the highest rating in the state's history, "AA-" under Standard & Poor's rating definitions, "Aa3" from Moody's Investors Service, and "AA-" from Fitch.

The achievement of receiving a double A rating from all three agencies was an important development for Kentucky. Portfolio managers often require a bond issue to carry a rating of double A before they will consider adding the issue to their investors' portfolios. With this rating, bonds issued by the Commonwealth enjoy a greater market demand and provide lower costs of borrowing.

KENTUCKY'S BOND RATINGS July 2003	
Standard & Poor's	**A+**
Moody's	**Aa3**
Fitch	**AA-**

A weakened economic condition and the use of budget reserves and one-time resources to offset revenue shortfalls in fiscal years 2000-01 and 2001-02 led to a downgrading by Standard & Poor's in October of 2002 to "A+." However, the Commonwealth continues to have a very strong capital management program and good relationship with capital markets. The action by the bond rating company confirms that Kentucky needs to address long-term structural problems in its revenue structure in order to bring into balance recurring revenues and recurring expenditures.

Government Performance Project Grades

The Government Performance Project is designed to assess the way each state handles its financial management, capital management, human resources, managing-for-results efforts, and information technology. Developed jointly between Governing magazine and the Maxwell School of Citizenship and Public Affairs at Syracuse University and funded by a grant from the Pew Charitable

Trusts, the project began in 1997. All states were graded in 1999 and again in 2001. In the five categories measured (financial management, capital management, human resources, managing for results, and information technology), Kentucky ranked above the national average and had an overall rating of B+ with the national average being B-.

Practices for which Kentucky received special mention in the 2001 Government Performance Project report include its emphasis on financial planning. Unlike many other states, Kentucky issues long-range consensus estimates for both revenues and expenditures. It calculates in advance how it can reduce expenditures in priority order if revenues turn south, or allocate surplus funds in order of priority without building up the ongoing operating budget.

In the area of Human Resources, the Commonwealth has reengineered its hiring process, and has made exceptional use of online applications and automated testing. Information Technology has also been a priority of the administration and for the first time in state history all three branches of Kentucky government use the same finance and budgeting system. Under the category of Managing for Results, Kentucky required cabinet-level agencies to create strategic plans which were aligned with the goals of the Governor.

GOVERNMENT PERFORMANCE PROJECT

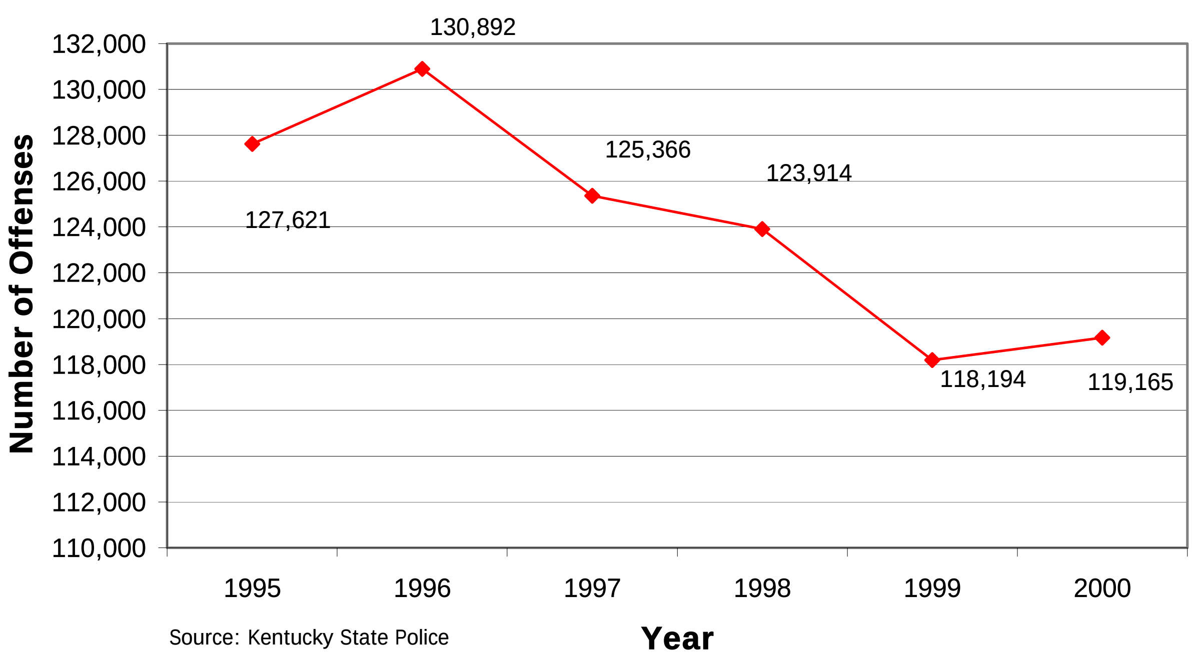
	Kentucky		**2001 National Average**
	1999	**2001**	
Financial Management	B+	A-	B
Capital Management	A-	B+	B-
Human Resources	B	B+	B-
Managing for Results	B	B+	C+
Information Technology	C+	B+	B-
Overall Average	**B**	**B+**	**B-**

PERFORMANCE INDICATORS
Reducing Crime and Its Costs to Society

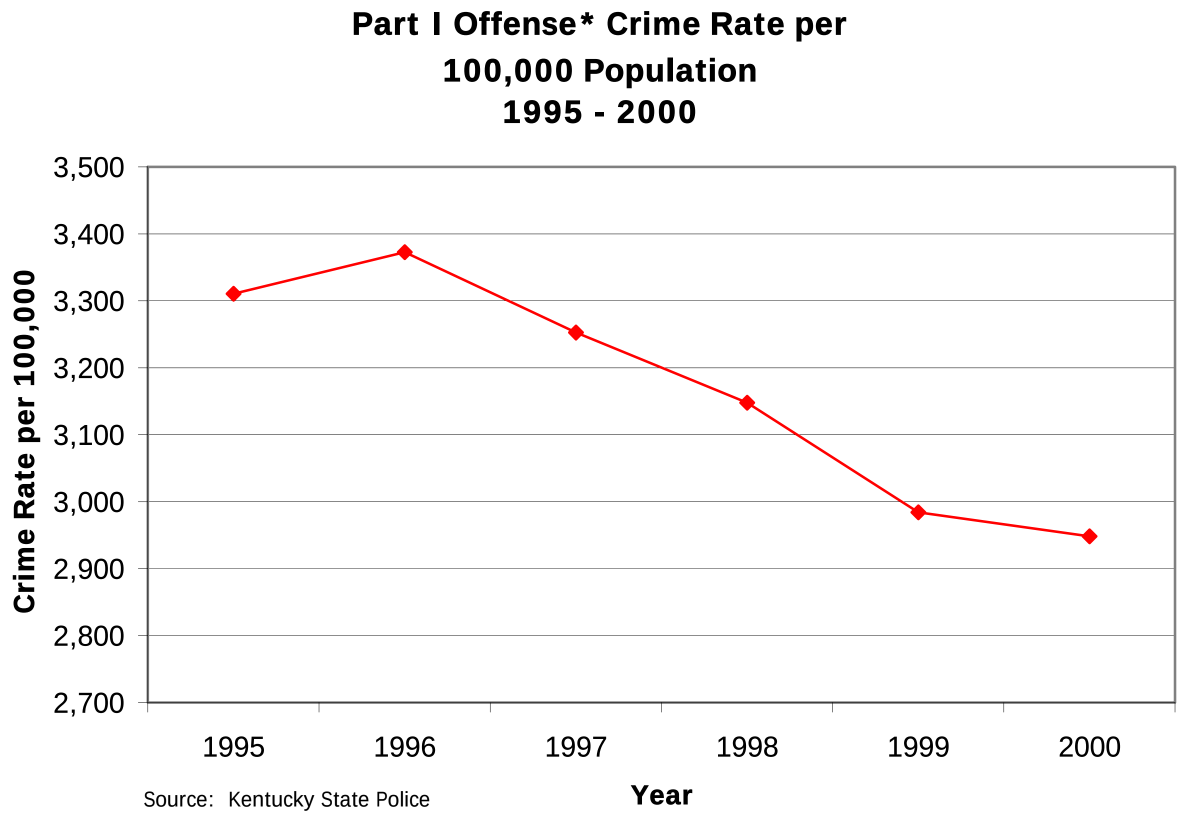
Crime Rate

Data provided by the Kentucky State Police indicate that from 1996 through 1999 there has been a consistent decrease in arrests for Part I offenses. These offenses include murder, rape, robbery, aggravated assault, burglary, larceny theft, auto theft, and arson. Compared to surrounding states – Indiana, Illinois, Missouri, Ohio, Tennessee, Virginia, and West Virginia – Kentucky has the second lowest rate for Part I offenses. The FBI reports that recent findings suggest that the number of major crimes across the U.S. have begun to rise. According to the Justice Cabinet, Kentucky crime statistics have tended to mirror the national trends.

Number of Part I Offenses*
1995-2000



Source: Kentucky State Police



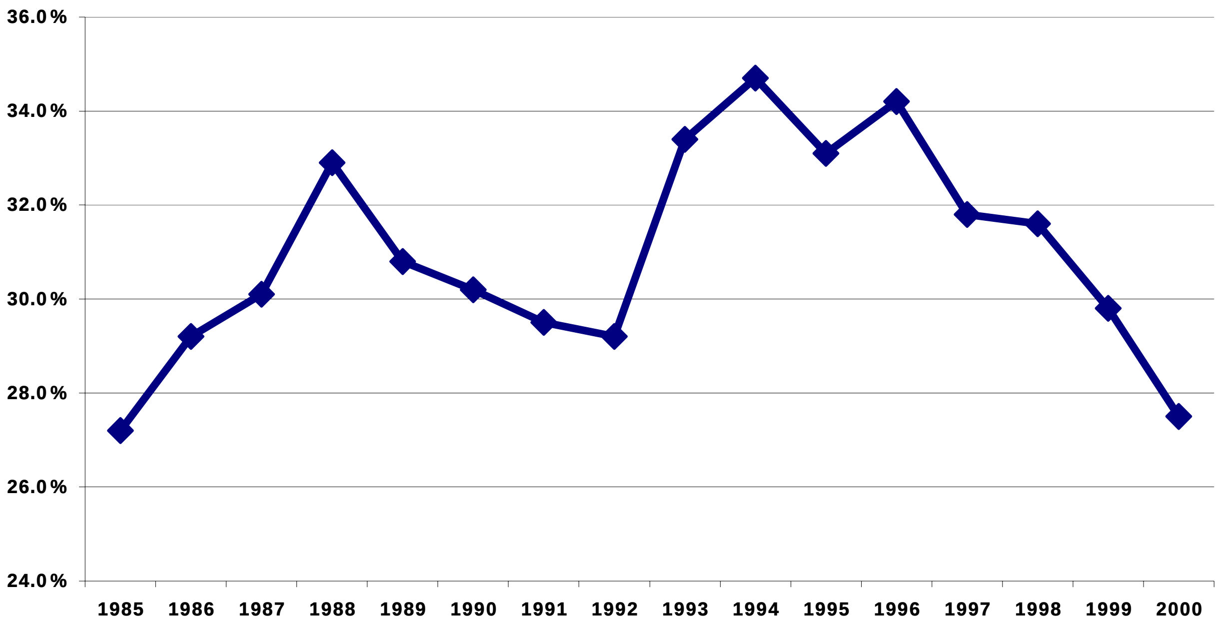
Substance Abuse

Kentucky contributed over $28 million across all agencies for substance abuse initiatives in fiscal year 2000-01. Performance measures vary widely from state to state and there are no "general" indicators by which to compare Kentucky with the nation or with individual states. For instance, Kentucky shows a rising number of persons admitted for treatment – however, it is unknown if this rise is due to better methods of identifying and treating chronic drug users, or an actual increase in the number of people with illicit drug usage problems. It should also be noted that the rate of recidivism for drug offenders is declining, according to the Department of Corrections 1998-2000 report. The report does not indicate if the return to prison of drug offenders is due to another drug related violation. There is a need to more clearly define performance indicators for substance abuse.

Recidivism Rates

It is difficult to compare the national recidivism rate data with Kentucky because both are measured in different ways. In 1998, 7,408 inmates were released from adult institutions in Kentucky. Within two years, 2,341 or 31.6 percent had returned to prison. Inmates were found more likely to return to prison within the first year following release (57 percent) than the second and those under 21 returned at a higher rate (50 percent) than any other age group. In 2000, 7,579 inmates were released from adult institutions in Kentucky. Two thousand eighty one or 27.5 percent of that number returned to prison within two years. Inmates were again found more likely to return to prison within the first year following release (58 percent) than the second and those under 21 returned at a higher rate (46 percent) than any other age group. The overall recidivism rate has gone from a low of 27.2 percent for those released in 1985 to a high of 34.7 percent for those released in 1994 decreasing to 27.5 percent for those released in 2000.

Kentucky Recidivism Rate 1985-2000



Source: Kentucky Department of Corrections – Recidivism Report – 1996-2000

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PERFORMANCE INDICATORS
Improving Quality of Life

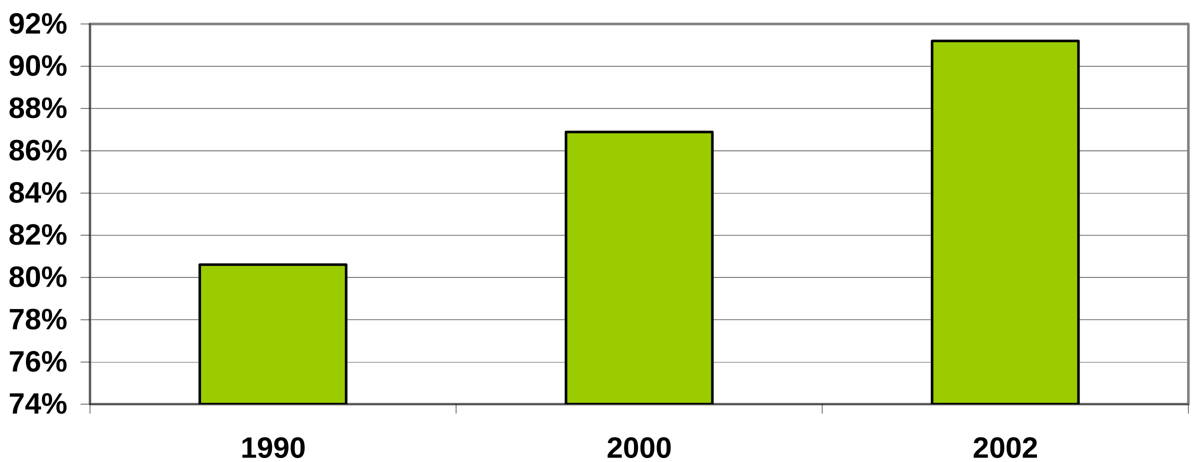
Number of Dump Free Counties

In March 2001 Governor Patton established by Executive Order 2001-384, the Certified Clean Counties Program to enhance the desirability of Kentucky as a place to live and work, thereby improving the quality of life in Kentucky. Since that order was issued, five counties have become “dump free:” Grant, Knott, Meade, Menifee, and Washington.

Number of People with Potable Water

The number of people with potable water increased significantly from 1990 to 2002 and continues to rise slowly although the percentage of homes with potable water has remained at approximately 91.7 percent since 2000 according to the latest figures available from the U.S. Census and Kentucky Division of Water, Kentucky Annual Public Water System Compliance Report.

% Homes in Kentucky with Potable Water



Source: Kentucky Department for Environmental Protection
Note: The population served does not include all potable water sources such as wells.

Number of Counties with Comprehensive Planning Processes

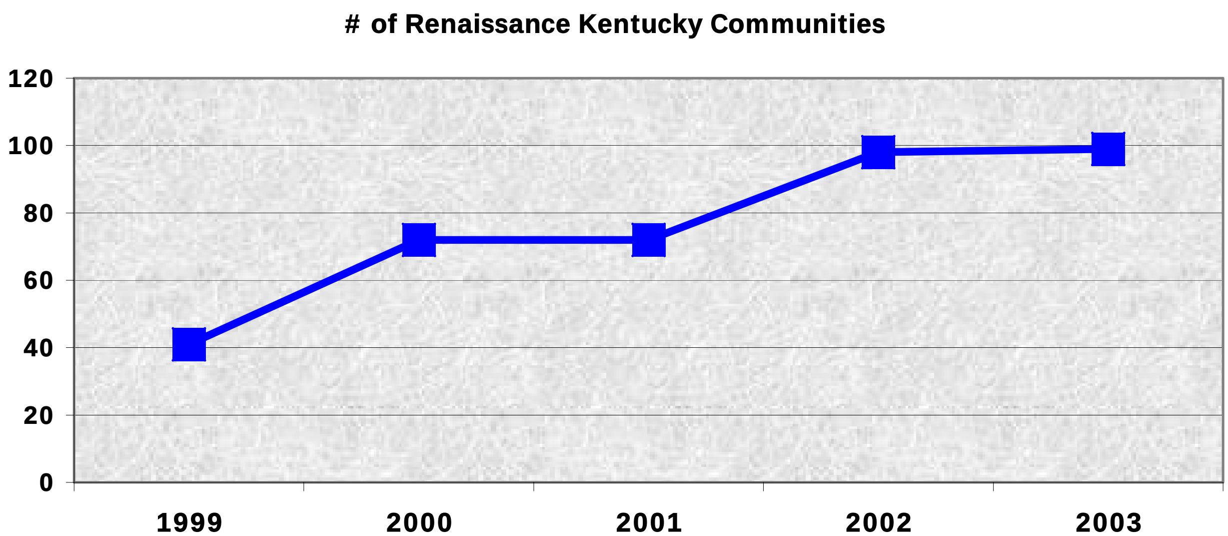
In Kentucky, there are 283 cities with planning and zoning, authorized under KRS Chapter 100. Of these, 219 coordinate their planning jointly with county planning and zoning units.

There are 27 counties that have full joint planning and zoning commissions. Within these counties are 184 cities. In several instances, the city planning effort and the county planning effort are not always coordinated in practice.

There are an additional 24 counties that have joint planning commissions, but not countywide zoning. In these counties, the larger cities (about 35) have independent zoning boards. In 45 counties, there are individual planning and zoning units, including 64 cities with independent planning and zoning commissions. Finally, there are 25 counties, containing 54 cities with no planning or zoning units at all.[1]

Number of Communities Actively Engaged in Downtown Revitalization Efforts

The most visible measure of Kentucky's progress in this area is the Renaissance Kentucky Program. The number of communities participating grew from 41 in 1999 to 99 as of October 2003. Several communities have entered the program at one level and subsequently have been moved to a higher level as they have progressed in their revitalization efforts.

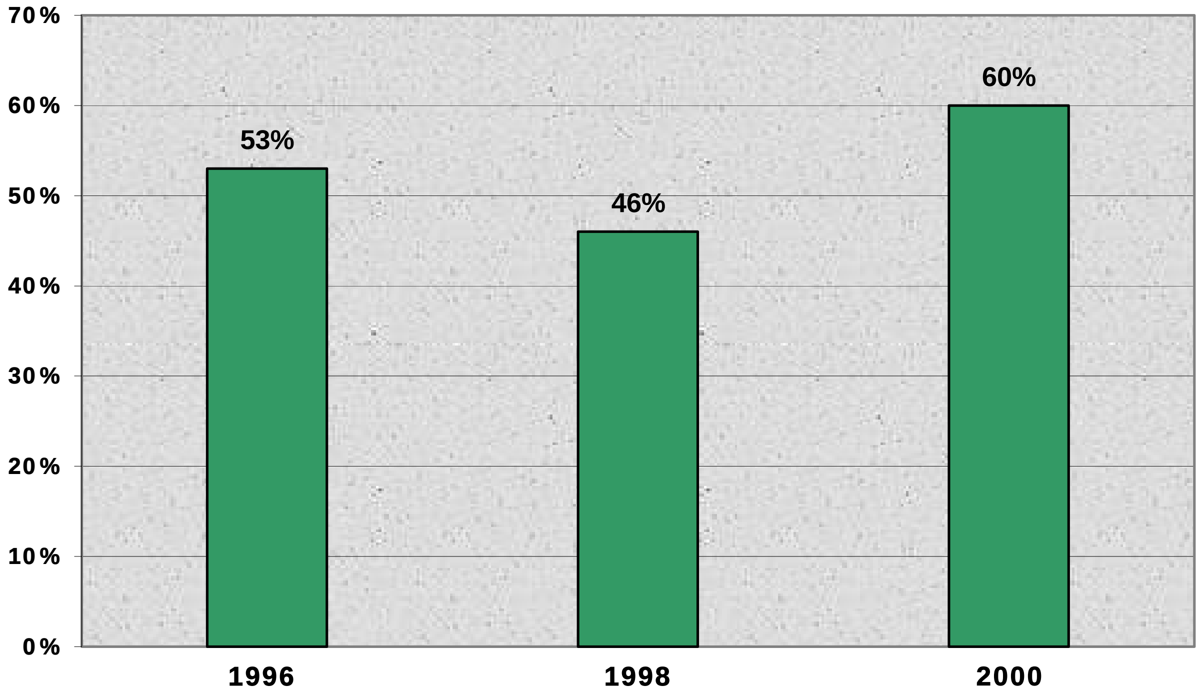


[1] **NOTE:** This analysis is based on data collected by the ADDs and by the Kentucky Chapter of the American Planning Association, as adjusted in accordance with information collected through a random telephone survey conducted by Kentucky League of Cities research staff. It is subject to change, as smaller cities withdraw or join the joint planning units. Efforts to create more formal joint planning units are underway in a couple of counties. There is also a tremendous degree of variation throughout the state regarding the terminology and practice of planning and/or zoning.

Participation in Cultural Activities

Figures available relating to participation in cultural activities are the percentages of adult Kentuckians who visited a museum, festival, arts performance, or historical site in their county over the past 12 months. The Education, Arts and Humanities Cabinet has commissioned the University of Kentucky to conduct a survey across the state to collect information about participation in cultural activities. In addition, the Cabinet is polling its agencies to solicit attendance information for events in their respective categories.

Percent of Adult Kentuckians Who Visited a Museum, Festival, Arts Performance or Historical Site in Their County in the Last 12 Months



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Strategies

Promoting Economic Development

- Workers' Compensation
- Regional Industrial Parks
- Statewide Infrastructure Improvements
- Transportation Planning and Infrastructure
- Tourism Tax Credits
- Kentucky Appalachian Commission/ Kentucky Appalachian Development Strategy
- Military Affairs Commission
- Skills Training and Investment Credit
- Venture Capital Fund
- Unemployment Insurance Tax Restructuring
- Knowledge-Based Economy Initiative
- Coal Recovery Plan
- Economic Opportunity Zone Initiative
- Economic Development Modernization
- Sustaining Agricultural Economy

PROMOTING ECONOMIC DEVELOPMENT

1.1 Kentucky Workers' Compensation Reform

I. ***CHALLENGE:*** To sustain reforms to the workers' compensation program in Kentucky that make it fair to injured workers and affordable for employers who pay for the system. Significant reforms were enacted in 1996, which focused on the critical objectives of fairness and affordability. However, after full implementation of reforms, refinements were warranted to increase benefits for traumatic injuries and black lung disease. These refinements continue to strike an appropriate balance between benefits and costs.

II. ***GOVERNOR PATTON'S POSITION:*** Workers' compensation reform remains vital to Governor Patton's goal to "set Kentucky on a path to achieve a standard of living equal to the national average in 20 years." If the 1996 reform law had not been enacted, the Governor believes Kentucky simply could not compete with surrounding states to generate the economic growth and jobs necessary to achieve this goal. Kentucky has significant advantages for new and existing businesses. Among these are water and surface transportation, its central location, state incentives, relatively low taxes and a skilled workforce. However, until late 1996, Kentucky's relative cost of workers' compensation was a disincentive to prospective businesses and was causing a significant loss of current and future jobs. The cost of workers' compensation also tended to hold down wages for employees and limit employers' ability to offer employee benefit plans.

Governor Patton recognized that sole reliance on an adjudicative and adversarial system wasted vital compensation resources which ultimately disadvantaged injured workers. Modification of the decision-making process with increased reliance on more informal, less costly, resolution of disability disputes was clearly necessary by 1996. Significant facts demonstrated how expensive the system had become by late 1996:

- The total cost in premium dollars of the Kentucky system in 1996 was equivalent to four times the businesses' state corporate income tax liability.

- The number of workers receiving awards in the previous seven years had more than doubled, despite no evidence of an increase in on-the-job injuries.

- Nearly all cases were litigated extensively with competing attorneys and doctors draining the system of dollars intended for disabled workers. Only 34 percent of employer dollars in 1996 paid for lost income, and disabled workers were routinely forced to await benefits pending conclusion of prolonged litigation.

- The Kentucky coal industry was in crisis. Premiums in the coal industry had risen 89 percent in the preceding two years. This was in addition to the pre-1996 $40 million Special Fund assessment on coal companies.

III. *PROCESS AND APPROACH:*

1996 Reform

Immediately after the 1996 Regular Session of the General Assembly ended, the Governor asked the Workers' Compensation Advisory Council, a group composed of eight industry and eight labor representatives, to conduct a series of public hearings to provide all interested parties an opportunity to present data to justify the assertions being made regarding the costs of the system.

From this process, the Governor and a working group from the Administration drafted a reform bill that was presented to a Special Session of the General Assembly in early December 1996. Remarkably, the Governor's plan passed the General Assembly largely intact, with only a few minor amendments to his original proposal. The major components of the new law included:

Reduced Litigation Costs

- Kentucky's workers' compensation program was originally created in 1916 as an expedient, yet fair, substitute to costly litigation between the worker and employer. While many changes were enacted during the ensuing year, the old system was still considered slow and relied heavily on attorneys and competing medical testimony.

- Under the new law, a state arbitrator reviewed a physician's diagnosis and made awards based on objective medical criteria. Disputes in the diagnosis and medical impairment were referred to impartial physicians at one of Kentucky's two medical teaching universities. Costly depositions and competing testimony were reduced in the system.

- Attorneys' fees were limited to $2,000 for the first stage of the process.

Compensation for Actual Functional Impairment

- The former workers' compensation law defined "injury" broadly to encompass any harmful change in the human organism, irrespective of whether the changes were caused by work. As a result, it often compensated those who met this definition but who remained capable of continuing to work. The net result was that too many were compensated while some impaired workers received nothing. This was a particular problem in non-symptomatic black lung claims by coal miners.

- Under the new law, the definition of disability was changed to compensate only actual functional impairment in partial disability claims where the employee has been restored to employment at full wages.

- Impairment was required to be caused by the work injury and not simply as a result of normal aging processes.

- Benefits were increased when injured workers were not able to return to work.

Restoration of the Financial Integrity of the Special Fund

- The Special Fund formerly paid for disabilities that could not be directly attributed to a particular employer. The Fund was originally created to encourage the hiring of those with partial disabilities and to spread the risk of liability over employers generally. However, over the years, the Fund incurred unmanageable liability for black lung awards and medical diagnosis of so called "dormant conditions." Moreover, the Special Fund was financed by special assessments on all Kentucky businesses, with an additional costly assessment on coal companies ($40 million per year). The end result was that all Kentucky businesses subsidized the coal industry, even though coal companies paid a burdensome extra assessment. Near the end of 1996, the Special Fund had a projected unfunded liability of $2.3 billion.

- Under the new law, the Special Fund will continue to pay existing liabilities, but will incur no new liabilities. Assessments on both coal and other industries decreased proportionately since the Fund will not accrue additional liabilities.

Creation of Guaranty Funds

- Prior to 1996, employees of individually self-insured employers and employees of employers obtaining workers' compensation insurance via group self-insurance funds were at a distinct disadvantage compared to workers of an employer obtaining coverage in the voluntary market in the event the employer defaulted on its obligation to pay benefits to injured workers. The employer's default coupled with an insufficient surety resulted in injured workers receiving less than the awarded amounts for benefits and medical services. Three distinct and separate funds were created to meet the unique needs of the Kentucky workers' compensation system. The implementation of these funds on March 1, 1997, effectively guaranteed, for the first time in Kentucky history, the payment of legally awarded benefits to every employee covered by the Kentucky Workers' Compensation Act regardless of the future financial strength of the employer under whose employment the injury or exposure to occupational disease occurred.

- Every employee who is injured or has suffered exposure to an occupational disease on or after the effective date of March 1, 1997, is guaranteed payment of benefits and medical services. Not one single injured worker has been denied their legally awarded benefits although several large employers have defaulted on their obligation to pay.

Enhanced Monitoring of Self-Insurance Programs

- Under the new law, the DWC's oversight responsibility was enhanced regarding the financial strength and daily operations of both the individual self-insured employers and the self-insured group funds. Beginning in 1997 the DWC, with cooperation from the Kentucky Department of Insurance, developed and implemented a comprehensive financial standards and market conduct review of all group self-insurance funds. The DWC continues to provide the desired independent oversight resulting in increased integrity for all funds permitting them to effectively compete with the voluntary market while maintaining fiscal responsibility.

Limits on Unnecessary Awards

- Under the new law, recipients who reach qualifying age for Social Security retirement benefits were not eligible for workers' compensation, except that a workers' compensation award would last for at least two years regardless of age.

- Prior statutory authority allowed awards, once settled, to be reopened in a repetitious manner even though, in many instances, without merit. This simply drove up the litigation and administrative costs of the system. The new law limited reopening of awards after four years.

- The new law contained incentives for retraining and return to light duty work.

2000 Refinements

After significant analysis, Governor Patton proposed amendments to the workers' compensation system in the 2000 Regular Session of the General Assembly in recognition that refinements to the system were warranted. Actual savings in workers' compensation costs from 1996 to 1999 were in excess of the projected amounts when the 1996 reforms were enacted. Governor Patton sought to bring more balance to the system by maintaining the objectivity of the system while increasing benefits to workers, both in traumatic injury claims and black lung disease. The objectives of the Governor's proposal, House Bill 992, sought to:

- Increase benefits to injured workers;
- Maintain objectivity in the system; and
- Sustain a competitive environment to control costs.

Specifically, the Governor's proposal sought to:

- Target enhanced benefits;
- Facilitate employee access to benefits;
- Fast track claims resolution; and
- Improve carrier performance.

House Bill 992 passed the House but was significantly altered in the Senate. Some of the most notable changes to the workers' compensation laws made in the final bill included:

- Arbitrators were eliminated from the claims process because of duplication of services which increased cost and delay in decision making. Administrative Law Judges would handle benefit review conferences as part of their claims adjudication functions.
- The Workers' Compensation Board which was to have been eliminated by July 1, 2000, was reinstated. After thoughtful analysis, the determination was made that the Board provided consistent guidance to Administrative Law Judges and curtailed delay in resolving claims with fewer appeals to the Court of Appeals and Supreme Court.
- Grid factors and multipliers were amended which resulted in an increase in permanent partial disability benefits.

- The death benefit was raised to $50,000.

- The attorney fee cap for arbitration was eliminated.

- Re-openings of claims was provided one year from a previous motion to reopen, and the two-year delay in reopening after an award was eliminated.

- The lump sum settlement bar was raised from $10 per week to $100 per week.

- The penalty against employers who violate safety regulations was raised from 15 percent to 30 percent.

The 2000 amendments were estimated to increase system costs by 7-10 percent, however, without these amendments total system costs were projected to decrease. To date, system costs have increased by 9.3 percent.

As important as what was included in the final bill is what was left out. Increased benefits for miners with black lung, which were included in the Governor's proposal, were eliminated in the final bill.

2001 Proposal

During the 2001 Legislative Session, the Governor demonstrated his continued commitment to increase benefits for miners with black lung by proposing House Bill 132, a resubmission to the legislature of the black lung disease benefit enhancements proposed in 2000. This bill was not enacted as a result of Senate action.

2002 Amendments

In the 2002 Legislative Session, Governor Patton followed through on his commitment to coal miners who have been impacted by black lung disease by proposing House Bill 348. The Governor's proposal sought to:

- Increase benefits for miners with black lung;

- Create better opportunities and incentives for miners with coal workers' pneumoconiosis who choose to retrain for jobs outside the coal mining industry;

- Provide the opportunity for older miners with black lung to opt out of retraining required to receive benefits;

- Create a more objective medical review process for black lung claims; and

- Re-evaluate coal workers' pneumoconiosis claims decided under the more restrictive guidelines of House Bill 1 passed in 1996.

While the Governor's proposal was altered during the legislative process, some of the most significant changes to the workers' compensation laws dealing with black lung disease are listed below:

- Increased benefits for coal miners found to have x-ray evidence of black lung;

- Miners age 57 or older with black lung have the opportunity to choose disability benefits in lieu of retraining incentive benefits;

- Increased income benefits for former miners who have entered into retraining programs which includes obtaining a GED;

- Possible bonuses of up to $10,000 if retraining is successfully completed;

- A consensus procedure involving x-ray interpretations by National Institute of Occupational Safety and Health (NIOSH) certified B-Readers instead of claimants being referred to university hospitals for evaluation;

- Miners whose cases were decided under the 1996 law pursuant to House Bill 1 and those who were subject to university evaluations may reopen their cases and utilize the new consensus procedure; and

- It was estimated that the provisions of House Bill 348 as enacted would increase costs to the coal industry by approximately 3-5 percent annually.

IV. ***LEADERSHIP AND CONTACT PERSONS: Larry M. Greathouse, Commissioner, Department of Workers' Claims*** (ph. 564-5550); ***Joe Norsworthy, Secretary of the Labor Cabinet*** (ph. 564-3070); ***Gary Davis, Department of Workers' Claims*** (ph. 564-5550); ***Kembra Taylor, Deputy Secretary of the Labor Cabinet*** (ph. 564-3070).

V. ***GOALS AND TIMEFRAME:*** The 1996 law immediately went into effect upon the Governor's signature on December 12, 1996. The Department of Workers' Claims ensured the smooth implementation of the new system. The Department invested additional energy with implementation of the changes made in 2000. With the 2000 statutory changes to the permanent partial benefit structure in traumatic injuries, which Governor Patton championed, both employees and employers have achieved a more equitable balance for early resolution of workers' compensation claims.

Total disability awards have been reduced. The increased permanent partial disability awards demonstrate more equitable remedies which resulted from 2000 legislative amendments and a distinctive decrease in more costly unwarranted total awards. The permanent partial disability awards increase the incentive for retraining and return to work at modified jobs.

- The number of claims filed have decreased significantly.

- There has been a 40 percent to 50 percent reduction in the litigation of claims.

- Workers' compensation insurance rates in the voluntary market for non-coal classes have decreased by 27 percent as of July 2000.

- Workers' compensation insurance rates in the voluntary market for coal classes had decreased by 40 percent as of July 2000.

- The number of workers who "opt out" of the workers' compensation system had decreased.

- Over 500 ex-coal miners filed claims for coal workers' pneumoconiosis benefits authorized by House Bill 348. Coal miners who qualify for retraining benefits as a result of exposure to coal dust and medical evidence of coal workers' pneumoconiosis now have a choice to choose additional education and job-training opportunities.

PROMOTING ECONOMIC DEVELOPMENT

1.2 Regional Industrial Parks Initiative

I. ***CHALLENGE:*** To create large blocks of available, accessible, and marketable industrial land in an economical way that will result in greater development, more job opportunities and a higher per capita income for all Kentuckians.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has stated that it is more feasible to develop large industrial parks (several hundred acres in size) strategically located throughout Kentucky, rather than small industrial parks (a few dozen acres in size) in each county. He believes it is state government's responsibility to put the infrastructure in place and to create the means for attracting business and jobs to those sites. The economic activity that comes as a result of those jobs will result in even more opportunity, not just in the county in which the park is located, but also in adjoining counties, thereby raising the living standards and per capita income throughout the region where this new "industrial community" has been developed. Where the small county industrial parks may attract dozens of jobs and a few small industries, the large parks can attract hundreds of jobs, and many large and small industries.

A good example of the potential of this idea is in Eastern Kentucky. Currently, due to geography, topography, and a relative lack of infrastructure, the cost per acre of developing industrial land is higher in Eastern Kentucky than in other parts of the state. If land is to be developed, it makes much greater economic sense to develop the land on a larger scale and serve more communities.

The Governor has encouraged counties to work together to create regional industrial parks that would allow them to compete with other states for incoming business, rather than compete against each other. Under the regional concept, all counties in a coalition will share the tax revenues generated by the industries in the regional industrial park.

III. ***PROCESS AND APPROACH:*** In late 1996, the Economic Development Cabinet announced new policies that allow multi-county coal severance funds to be used to construct regional business parks. At that time, coal producing counties were asked to join together, identify sites and costs, and make proposals to the Cabinet for Economic Development for the development of some of these sites.

To date a total of ten regional business parks are completed or are under development. One additional park is currently being evaluated. The projects that have been initiated include the following with host counties highlighted.

- Coalfields Regional Industrial Park (**Perry,** Harlan, Leslie, Breathitt, Knott)

- Honey Branch Regional Business Park (**Martin,** Pike, Johnson, Magoffin, Floyd)

- East Park Regional Industrial Park (**Boyd, Carter, Greenup**, Lawrence, Elliott)

- John Will Stacy MMRC Regional Business Park (**Rowan,** Morgan, Menifee)

- Southeast Kentucky Regional Industrial Park (**Knox**, Bell, Clay, Whitley, McCreary)

- Four Star Regional Industrial Park (**Webster, Henderson**, Union, McLean)

- Bluegrass Crossings Regional Business Centre (**Ohio,** Daviess, Hancock, Muhlenberg, McLean)

- Pine Ridge Regional Business Park (**Wolfe**, Breathitt, Lee, Owsley, Powell)

- Gateway Regional Business Park (**Letcher**, Pike, Floyd, Knott)

- Pine Mountain Regional Business Park (**Bell**, Harlan, Knox, Letcher, Whitley) Note: Land for the project has been acquired but the project is not yet fully developed.

Significant progress has been made in the development of these parks and all parks other than Pine Mountain are now being actively marketed. Several hundred acres have been sold. In total, these parks currently represent over 3,900 acres of immediately developable land. The Pine Mountain project will add an additional 500 acres to this inventory when completed.

With the announcement of Columbia Sportswear at the Four Star Industrial park in Henderson and Webster Counties, all nine completed parks have at least one company on their site. In fact, EastPark and MMRC have three each. The 14 companies are investing over $300 million in the

Commonwealth. Speculative buildings are now complete and available to be marketed in four of the parks.

	COMPANY	JOBS	COMPANY INVESTMENT	PARK
1.	Daicel	75	$26,500,000	Bluegrass Crossing
2.	Ritatsu Manufacturing	30	$3,100,000	Bluegrass Crossing
3.	American Woodmark	260	$20,000,000	Coalfields
4.	Cintas	279	$15,000,000	EastPark
5.	Cingular Wireless	850	$24,000,000	EastPark
6.	Ohio Valley Wholesale	125	$3,000,000	EastPark
7.	Image Entry	200	$884,791*	Gateway
8.	Sykes Enterprises	509	$6,000,000	Honey Branch-Mossy Bottom
9.	Family Dollar	500	$100,000,000	MMRC
10.	Morehead Machine	10	$500,000	MMRC
11.	Simba USA LLC	65	$9,560,000	MMRC
12.	Columbia Sportswear	87	$40,000,000	Four Star
13.	Kentucky Truss, Inc.	24	Unknown	Pine Ridge
14.	CTA Acoustics**	650	$56,887,600	Southeast
	TOTAL	**3,664**	**$305,432,391**	

*Estimate
**Relocation and expansion result of disaster at original location

The Department for Regional Development administers the Regional Business Park Program.

IV. ***LEADERSHIP AND CONTACT PERSONS**:* ***Gene Strong, Secretary of the Cabinet for Economic Development*** (ph. 564-7670); ***Hugh Haydon, Commissioner, Department for Regional Development*** (ph. 564-5645).

V. ***GOALS AND TIMEFRAME:*** One additional park is in the preliminary planning stage and may be completed as funds become available.

PROMOTING ECONOMIC DEVELOPMENT

1.3 Statewide Infrastructure Improvements

I. ***CHALLENGE:*** Many of Kentucky's communities lack the essential contemporary infrastructure for economic development, environmental quality, and proper health and sanitation. This is true of older urban areas, expanding suburban communities, and rural Kentucky. The absence of essential statewide infrastructure impedes economic diversification, reduces the state's attraction as a tourism destination and detracts from the quality of life available to Kentucky citizens. The challenge is to move forward in ways that make significant permanent improvements to our economic well-being, public health, and quality of life.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton knows well what the absence of essential infrastructure can mean to a community and a state. Given his extensive personal involvement in statewide economic development activities and transportation development, as well as in local government, he is keenly aware that essential drinking water, wastewater treatment, transportation, communications, and technology infrastructure are critical to material improvements in the quality of life for Kentuckians in the 21st Century.

For many communities, counties, and regions, significant improvements cannot take place without leadership and financial support from state government. The Governor's view is that this support must be among the top priorities of the Commonwealth not only during his service as Governor, but for decades to come. He recognizes, of course, that state government cannot "go it alone." Local governments must help themselves through effective public policy formulation, planning, and financial participation in partnerships with the Commonwealth. Likewise, the vast resources of the federal government must be leveraged to enhance the state and local efforts that Kentucky has launched.

III. ***PROCESS AND APPROACH:*** Governor Patton's first three biennial budgets beginning in 1996 advocated far-reaching investments in statewide infrastructure which were ultimately approved by the General Assembly in each Regular Session. At the time he initially presented his fourth biennial budget in January 2002 covering the 2002-2004 biennium, the national economy and state revenue picture had markedly deteriorated. Thus, the Statewide Infrastructure Improvement Plan he developed was much more tightly focused. It focused on stretching very limited resources to cover a minimum level of essential maintenance combined with selective facility enhancements designed to protect existing investment. At the same time, he advocated a renewed commitment to school facility construction and renovation and support for the New Economy initiatives launched previously. Because much of the actual construction work for previously authorized projects was just getting underway after the completion of detailed project design, the biennial budget proposed little new construction. An important exception to the "no new projects" emphasis in the final biennial budget he proposed was continued emphasis on community development and infrastructure projects funded with Coal Severance Tax revenues.

The 2002 Regular and Special Sessions of the General Assembly did not enact a budget necessitating the initiation of a Spending Plan by Governor Patton's Executive Order to permit state government to continue to operate after July 1, 2002. The Spending Plan set forth by the Governor included infrastructure improvements that would have been financed in a regular legislatively enacted budget from cash outlays. However, all bond projects that had been proposed were, of legal necessity, placed on hold in the absence of explicit legislative authorization.

The 2003 Regular Session of the General Assembly adopted a belated biennial budget for the 2002-2004 fiscal period. That budget included all of the projects previously proposed in the two 2002 Sessions, including bond projects, as well as major additional authorizations for school financing including a new program for the most needy school districts. Moreover, the budget authorized a major expansion of the Water and Sewer Infrastructure programs originally undertaken under the "2020" potable water initiative Governor Patton launched. In addition, the number of Community Development projects funded with Coal Severance Tax revenues was expanded significantly to include both bond projects and those financed from single and multi-county funding.

IV. ***LEADERSHIP AND CONTACT PERSONS: Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611); ***Mary Lassiter, Acting State Budget Director, Office of State Budget Director*** (ph. 564-2611); ***Gordon C. Duke, Secretary of the Finance and Administration Cabinet*** (ph. 564-4240); ***James C. Codell, Secretary of the Transportation Cabinet*** (ph. 564-4890).

V. ***GOALS AND TIMEFRAME:*** The infrastructure improvement program championed by Governor Patton continues to reflect a balanced program of new initiatives with high levels of funding support for traditional infrastructure such as clean water and wastewater treatment, prisons, mental hospitals, and roads – complemented by new emphasis on emerging areas of intellectual and business systems infrastructure including high tech developments and information technology. Each biennial budget has built upon its predecessor – both with respect to the completion of projects and the development of long-term initiatives aimed at elevating Kentucky's national position by the year 2020. The most prominent of these are the rural potable water program, the IT program initiated as EMPOWER Kentucky, and the new High Tech Construction and Investment Pools emphasizing the knowledge-based economy, as well as an unprecedented array of local Community Development projects reaching into every part of Kentucky. More than $633 million has been invested in community development projects during the Patton administration, with an additional $324 million invested in water and sewer projects alone. Governor Patton has also placed special importance on sustaining high level investment in school construction and renovation at the elementary and secondary level, as well as a very high level of carefully targeted state funding for postsecondary education facilities and the Research Challenge Trust Funds incentive programs, better known as "Bucks/Bonds for Brains." Two especially prominent infrastructure improvements are the new State Transportation Office Building, the first major office development to be constructed in the Capital City in a quarter century, and the initial stage of a badly needed top-to-bottom restoration and renovation of the State Capitol Complex.

PROMOTING ECONOMIC DEVELOPMENT

1.4 Transportation Planning and Infrastructure Improvements

I. ***CHALLENGE:*** To provide for the construction and operation of a modern transportation system that will enhance future economic development and to ensure that Kentucky receives maximum benefit from its ongoing highway construction program by delivering essential highway improvements on time and within budget.

II. ***GOVERNOR PATTON'S POSITION:*** As we enter the 21st Century, Governor Patton is well aware that a close relationship exists between economic prosperity and the availability of, and access to, good quality transportation, particularly highways. He knows that local communities in many regions still lack the infrastructure necessary to attract new development and that adequate highway and airport funding must be secured and wisely invested to provide a quality system. The Governor has taken strong positions, both nationally before Congress and on the state level with the Kentucky General Assembly, to bring the maximum possible application of transportation user fees to bear on these needs.

At the state level, Governor Patton believes very strongly that the Six-Year Highway Plan must present realistic project costs and timetables, and be fiscally balanced against projected revenues. It is imperative that road improvement promises contained in the Six-Year Highway Plan be met if the public is to have confidence in transportation initiatives.

III. ***PROCESS AND APPROACH:*** Since taking office, Governor Patton has represented the National Governor's Association in testimony before Congress on the importance of releasing Highway Trust Fund monies back to the states that originally collected or remitted them. As the result of his and others' determined efforts, Congress enacted a new Highway Bill, which provided Kentucky a 60 percent increase in funding over the previous Act. At the state level, through his Executive Budget, he proposed and gained approval for a $200 million road bond program designed to keep projects from previous six-year plans on schedule. He also is working to draw down cash balances in the State Road Fund in an effort to put all available dollars to use in improving Kentucky's highway system. He actively supported and signed legislation to create an Airport Development Fund, which dedicates jet fuel taxes for the purpose of improving the Commonwealth's vital aviation infrastructure. Finally, he recognized the need to provide the Kentucky Transportation Cabinet with modern, efficient facilities and equipment, and gained approval of a long-delayed capital program for constructing several new transportation buildings across the state, including the first major office building in Frankfort in 25 years.

The Transportation Cabinet has taken the initiative, both through its internal processes and via its relationship with the legislative branch, to improve the public's confidence in the six-year planning process. For example, Six-Year Highway Plan commitments are now being tracked daily to determine the necessary application of Cabinet resources to best meet schedules and minimize project cost overruns. The Cabinet has also implemented a number of policy and organizational changes, advanced technology applications, community-involvement techniques, project-financing innovations, and public-private partnerships designed to streamline and expedite the planning, development, and execution of projects. The Transportation Cabinet and the Governor's Office worked with the Kentucky General Assembly to change the laws governing the Six-Year Highway Plan to increase accountability for project delivery and to better define executive and legislative responsibilities for plan development. These changes are being continuously evaluated, and further adjustments will be considered as needed during future legislative sessions.

Taken together, Governor Patton's actions in support of future funding and planning for Kentucky's transportation infrastructure will allow the state to aggressively move forward in addressing a backlog of highway, airport, and capital construction needs. The resulting improvements will be felt across the state in terms of improved mobility for people and goods, greater traveler safety, enhanced economic development opportunities, decreased congestion, and better efficiency and responsiveness from the Transportation Cabinet.

IV. ***LEADERSHIP AND CONTACT PERSONS: James C. Codell, III, Secretary of the Transportation Cabinet*** (ph. 564-4890); ***Cliff Linkes, Deputy Secretary of the Transportation Cabinet*** (ph. 564-4890).

V. ***GOALS AND TIMETABLE:*** The federal Highway Trust Fund funding increase began flowing in full in 1999. Since then, the Transportation Cabinet has been moving aggressively to schedule and launch projects to put these additional roadway construction funds to work for Kentucky. The Governor and the Cabinet continue to work to assure that federal funding authorizations and appropriations are renewed and secured on a timely basis.

The latest edition of the Six-Year Highway Plan covers the period 2003-2008 with projected costs of approximately $5 billion. The Transportation Cabinet's goal is to meet all Six-Year Highway Plan schedules while continually assessing performance to determine further opportunities for improving project delivery. Obviously, however, this goal cannot be met for the entire timeframe covered by the Six-Year Highway Plan absent significant, additional revenues generated from appropriate transportation user fees. Recognizing this fact, the Governor and Cabinet will continue to work to secure resources sufficient to match both emerging and already authorized project activity included in the enacted Six-Year Highway Plan.

Beginning in the 2000 Regular Session of the General Assembly, the legislature authorized the Cabinet to begin accelerating the spending of Road Fund cash that had accumulated over several years. Until the 2000 Session, the Cabinet would set aside the full amount of an authorized road project and spend the funds on an as-needed basis until the project was complete, thus the “fully funded” concept. This Cabinet policy allowed Road Fund cash to accumulate because the time line for beginning and completing a road project generally takes more than one year.

The 2000 Session of the General Assembly authorized a change in policy direction in order for the Cabinet to initiate several projects simultaneously and use Road Fund cash accumulated from previously authorized projects to cover the costs of both old and new projects. Over time, this policy change would deplete the cash balances and the Cabinet transition to a “pay as you go” financing model.

The 2000-2002 Biennial Budget (House Bill 502), enacted by the General Assembly, established the Prefinancing Road Projects Program (Program), authorizing the Kentucky Transportation Cabinet (KYTC) to develop and implement a program to accelerate projects in the Biennial Highway Construction Plan. The 2002-2004 Biennial Budget (House Bill 269) modified the plan, requiring KYTC to maintain a minimum Road Fund cash management target of $100 million.

As developed, the Program permitted KYTC to initiate work on highway projects in excess of available budget authority by employing a cash flow financing program. In accordance with the General Assembly’s authorization, KYTC used the Road Fund cash balance to accelerate highway projects. Current forecasts of cash balances indicate that the Road Fund cash balance, net of the federal receivable, will be reduced to the $100 million cash management threshold by late calendar year 2003. Therefore, KYTC has developed a Cash Management Spending Plan (Plan) which has been approved by the Finance and Administration Cabinet.

The Plan addresses how KYTC manages and monitors cash inflows and cash outflows to ensure that balances are sufficient to meet the obligations of KYTC and other state agencies that receive Road Fund appropriations.

PROMOTING ECONOMIC DEVELOPMENT

1.5 Tourism Development Tax Incentives

I. ***CHALLENGE:*** To create or expand major tourism destination attractions in Kentucky to generate more tourism revenues from out-of-state tourists.

II. ***GOVERNOR PATTON'S POSITION:*** Tourism and travel is now the number one industry worldwide. In Kentucky, tourism is the third largest industry, having an economic impact exceeding $9.1 billion in 2002, supporting 164,664 jobs, and generating $942.5 million dollars in state and local taxes. Governor Patton's position is that the state must focus on increasing its share of the tourism dollars spent in the United States by helping develop more private tourism facilities in Kentucky. One of his first acts was to rename the Tourism Cabinet, the Tourism Development Cabinet, and to direct Secretary Ann Latta to have her office take the lead in development efforts across the industry. The success of his strategy can be measured by the $2 billion growth in the economic impact of tourism in Kentucky since he took office—an increase of 28.4 percent. From 1995 to 2002, state and local taxes generated by tourism increased by $158.2 million and jobs attributable to tourism increased by 17,300.

III. ***PROCESS AND APPROACH:*** During the Patton Administration, there have been three incentive programs created to encourage the development of privately owned tourism facilities.

A. Kentucky Tourism Development Act

During the 1996 General Assembly Governor Patton gained passage of a new state law that provided a financial incentive, for the first time, to create more private tourism destination attractions in Kentucky. Named the Kentucky Tourism Development Act, the law provides a sales tax refund to qualified new and expanding tourism destinations. Since enacted, the Act has been amended to broaden the definition of eligible projects. By the Spring of 2003, ten projects had been approved under the act, representing a total new private investment exceeding $461 million. The economic impact generated by those projects over the next ten years is expected to reach between $1.5 and $1.7 billion.

The Act has the following major provisions:

i. *Incentives*

Developers of approved new or expanding tourism attractions are eligible for a refund of state sales taxes generated on site. Developers have ten years to recover up to 25 percent of project costs through the sales tax refund. Expanding existing attractions receive the refund only on increased state sales tax due to expansion.

ii. *Eligibility Requirements*

- Meet definition of tourism project;
- Cost a minimum of $1 million;
- Attract at least 25 percent of visitors from out-of-state by fourth year;
- Open to the public at least 100 days a year; and
- The developer is required to pay for an economic impact study by a private consultant, selected by Tourism Development Cabinet. Study must demonstrate that project meets all eligibility requirements, will generate tax revenues to state that will exceed the tax refund given to company, and shall not adversely affect existing employment in Kentucky.

iii. *Definition of Tourism Attraction Project*

A cultural or historical site, recreation or entertainment facility, Kentucky Crafts and Products Centers, Entertainment Destination Center, Theme Restaurant Destination Attractions or area of natural phenomenon or scenic beauty. Lodging facilities are eligible when built in conjunction with an attraction, built on state or federal recreational lands, involve the restoration of an historic structure, or the renovation of a lodging facility having 500 rooms or more with project costs exceeding $10,000,000.

B. Tourism Development Loan Program

The Cabinet was provided $1.5 million in 2000 to fund a loan program to assist small tourism businesses. Four projects had been approved by May 2003, helping to develop a rock climbing adventure in the Red River

Gorge area, an equine facility in Owensboro, a winery/restaurant in Danville, and an agri-tourism attraction in Warren County.

C. Tax Increment Financing (TIF) for Tourism Projects

Governor Patton proposed and legislation was enacted (House Bill 372) during the 2002 General Assembly to modify existing TIF programs. Definition of eligible projects now includes some tourism development projects. Two projects have been approved with a dollar investment of $211 million.

i. *Incentives*

Developers of approved projects are eligible to recover a proportionate increase of state and local taxes generated by the project. The developers may recover up to 25 percent of the project costs over a 20-year period.

ii. *Eligibility Requirements*

- Represent new economic activity in the Commonwealth;
- Have a minimum capital investment of $10,000,000;
- Create no less than 25 new full-time jobs for Kentucky residents;
- Have a net positive economic impact for the state of Kentucky;
- Generate no less than 25 percent of its annual revenues through out-of-state visitors;
- Result in a unique contribution to or preservation of the economic vitality and quality of life of a region of the Commonwealth; and
- Not be primarily devoted to the retail sale of goods.

iii. *Definition of a Tourism Project*

- Be a tourism attraction, recreational, or commercial facility.

IV. ***LEADERSHIP AND CONTACT PERSONS***: ***Ann Latta, Secretary of the Tourism Development Cabinet*** (ph. 564-4270); ***David Lovelace***, ***Deputy Secretary of the Tourism Development Cabinet*** (ph. 564-

4270); ***M. Todd Cassidy, Economic Development Representative, Tourism Development Cabinet*** (ph. 564-8067).

V. *GOALS AND TIMEFRAME*:

A. Kentucky Tourism Development Act

Twelve projects have received final approval for incentives under the Kentucky Tourism Development Act, with a total new private investment exceeding $532 million.

Project	Location	Approved Costs
Newport Aquarium	Newport	$31,665,969
Kentucky Speedway	Sparta	96,187,655
Newport on the Levee	Newport	188,604,285
Glassworks	Louisville	3,900,000
Owsley Brown Frazier Historical Arms Museum Foundation	Louisville	16,573,000
Musselman Hotels	Louisville	17,910,000
Heaven Hill Visitor's Center	Bardstown	2,850,000
Galt House	Louisville	60,696,671
4th Street Live!	Louisville	61,680,000
West Main Museum and Hotel	Louisville	21,150,000
Hofbrauhaus of Newport	Newport	7,156,000
Green River Lodge	Campbellsville	24,000,000
Total Approved Costs		**$532,373,580**

B. Tourism Development Loan Program

Four projects have been approved for loans, totaling approximately $500,000, under the Kentucky Tourism Development Loan Program.

Project	Location	Committed Funds
Cowboy's of Kentucky	Owensboro	$55,000
Torrent Falls Via Ferrata	Campton	136,098
Old Crow Inn Bed and Breakfast and Winery	Danville	127,000
Chaney's Dairy Barn	Bowling Green	180,000
Total of Loans		**$498,098**

C. Tax Increment Financing (TIF)

Two projects have received approval for participation under the TIF program. The total dollar investment for these two projects is $211 million.

Project	Location	Capital Investment
Marriott Convention Center Hotel	Louisville	$111,000,000
Churchill Downs Renovation	Louisville	100,000,000
Total Development Costs		**$211,000,000**

PROMOTING ECONOMIC DEVELOPMENT

1.6 Kentucky Appalachian Commission
Kentucky Appalachian Development Strategy

I. ***CHALLENGE:*** Put the 51-county Kentucky Appalachian region on a track to reflect the economic and demographic profile of the state as a whole within 20 years by stimulating the development and expansion of a diversified, sustainable economy in the region.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton envisions Appalachian Kentucky as a region that shares in and contributes to the prosperity of the state as a whole. His goal of seeing Kentucky reflect a standard-of-living and quality of life comparable to the national average cannot be achieved without sustained economic advancement in Appalachian Kentucky. The state cannot realize its full potential until each region of the state fulfills its own economic and quality of life potential.

III. ***PROCESS AND APPROACH:*** Governor Patton has employed a comprehensive and coordinated approach to Appalachian development, working from a platform of policy, programs, and legislative initiatives. While his Appalachian development strategy has a distinctive, progressive character that addresses specific regional issues, the strategy is synchronized with broader state goals the Patton Administration has pursued. This approach has contributed to the effectiveness of the Governor's Appalachian development program by encouraging compatible regional and statewide goals that have focused on targeted outcomes, by encouraging collaboration to maximize the benefit of scare resources and by clearly defining objectives so all stakeholders in regional advancement can contribute to achieving these goals.

Governor Patton's Appalachian development strategy emphasizes activity in seven strategic focus areas: 1) promoting and supporting education, 2) growing the economy, 3) expanding the coal severance tax program, 4) expanding health care services and growing the region's health care economic sector, 5) investing in infrastructure, 6) protecting the environment, and 7) developing leadership and building civic capacity in the region.

To facilitate the development and implementation of his Appalachian development strategy, Governor Patton reorganized the Kentucky Appalachian Commission in July 1996 to serve as a focal point in his administration for Appalachian affairs. The Commission consists of 48 members, many of whom control the resources necessary to accomplish the goals that extend from the Appalachian development strategy's strategic focus areas. The membership also includes local government representatives, citizens of the region and representatives of the citizen-based Kentucky Appalachian Advisory Council. Also during his administration, Governor Patton organized the "New Appalachia Action Team" to assist in advancing regional initiatives through the state bureaucracy.

Some of the successful initiatives stemming from the Governor's regional development strategy include the creation of a network of regional business parks, implementation of the Kentucky Appalachian Community Development Initiative, the Appalachian Kentucky Entrepreneurship Initiative, organization of Leadership East Kentucky, creation of the Pine Mountain Trail State Park, and environmental initiatives aimed at protecting Black Mountain from mining and logging operations.

IV. ***LEADERSHIP AND CONTACT PERSON: Ewell Balltrip, Executive Director, Kentucky Appalachian Commission*** (ph. 606-435-6129).

V. ***GOALS AND TIMEFRAME:*** Governor Patton's objective has been to set the Kentucky Appalachian region on a track that will allow the area to reflect the economic and demographic character of the state as a whole within 20 years. The process to achieve this objective is ongoing and cannot be achieved in a compressed timeframe. The administration has made quantifiable accomplishments toward the objective over the course of its tenure and continues to pursue actions that contribute to realizing Governor Patton's goals.

PROMOTING ECONOMIC DEVELOPMENT

1.7 Military Affairs Commission

I. ***CHALLENGE:*** To preserve Kentucky's military force structure from future threats of downsizing by the Department of Defense, and to seek opportunities to grow our military industry throughout the Commonwealth by caring for our veterans, supporting our current infrastructure, and assisting businesses dependent upon defense contracts.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton, concerned over the continuing environment of declining U.S. expenditures for defense, and realizing that Kentucky's military is a $4 billion industry in the Commonwealth, attached the Kentucky Commission on Military Affairs to his office to ensure that the Commission works closely with the Governor's cabinet to address all issues of military significance.

Governor Patton realizes the military is changing to accommodate fundamental shifts in the strategic environment worldwide. This environment has forced budget cuts, downsizing, and re-engineering of our nation's defense structure. Over the last decade, the number of military personnel in Kentucky has declined by 16,000, primarily due to reductions at Fort Knox, the closure of the Lexington-Bluegrass Army Depot and the Defense Mapping Agency, and the privatization of Louisville's Naval Ordnance Station. In terms of economic significance to the state's economy, the military has the fifth largest payroll among Kentucky industries that export their product out of state. On a per capita basis, the military spends more in Kentucky than in any bordering state except Virginia. Military presence in the Commonwealth of Kentucky is critical to the economic well being of the state. Therefore, it is imperative that our military infrastructure be protected from further Department of Defense downsizing initiatives.

III. ***PROCESS AND PROCEDURE:*** Governor Patton established the Kentucky Commission on Military Affairs as a separate administrative body of state government. The Commission has been charged with the following seven missions: 1) advise the Governor, the General Assembly, the Kentucky Congressional Delegation, and other appropriate officials on all matters in which the military services and the Commonwealth have mutual interest; 2) take action to promote and optimize state and Department of Defense initiatives that will improve the military value of Kentucky's active and reserve military force structure and installations, and improve the quality of life for military personnel residing in the Commonwealth; 3) coordinate, as necessary, the state's interest in future Department of Defense base closure and restructuring activities; 4) recommend state, federal, and local economic development projects which would promote, foster, and support economic progress through military presence in the Commonwealth; 5) promote and assist the private sector in developing spin-off investments, employment, and educational opportunities associated with higher technology programs and activities at Kentucky's military installations; 6) recommend to the Kentucky Economic Development Partnership the long range options and potential for the defense facilities located in Kentucky, and 7) develop strategies to encourage military personnel to retire and relocate in Kentucky, and promote those leaving the military as a viable quality workforce for economic development and industrial recruitment.

IV. The Commission has developed a strategic plan, which presents a clear and concise operational blueprint of action for accomplishing its missions. The Commission also administers a Community Grant Program that allocates money to qualified applicants to further its missions.

The Commission consists of the Governor, or his designated representative; the Secretary of the Economic Development Cabinet; the Adjutant General of the Commonwealth; the Commissioner of the Department of Veterans' Affairs; the Executive Director of the Long-Term Policy Research Center; the Attorney General; Kentucky's Civilian Aides to the Secretary of the Army; and the Secretaries of the following cabinets: Finance and Administration, Families and Children, Health Services, Justice, Labor, Natural Resources and Environmental Protection, Revenue, Transportation, Workforce Development, and Education, Arts and Humanities. The commanders of each of the following military installations serve as non-voting, ex-officio members: Fort Campbell, Fort Knox, United States Army Recruiting Command, Bluegrass Army Depot, Louisville District of the United States Army Corps of Engineers, the One Hundredth Training Division, and the Louisville/Jefferson County Redevelopment Authority. An Executive Committee, appointed by the Governor, consists of five at large members, the Adjutant General, the Secretary of the Economic Development Cabinet, the Commissioner of the Department of Veterans' Affairs and the Executive Director of the Commission on Military Affairs, who are responsible for establishing the goals and objectives of the Commission. The Executive Director, appointed by the Governor, serves as the Administrative head and Chief Executive Officer. He is responsible for operating the normal business activities of the Commission.

IV. ***LEADERSHIP AND CONTACT PERSONS: Brigadier General (Ret) James E. Shane, Executive Director, Kentucky Commission on Military Affairs*** (ph. 564-0269); ***Mr. Jerry Cecil, Chair, Kentucky Commission on Military Affairs*** (ph. 606-744-3939).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to the military is a continuing one. Given the current environment of budgetary cuts, forced downsizing, and re-engineering of our nation's defense structure, Kentucky must continue to preserve our current structure and seek opportunities to enhance the military activity throughout the Commonwealth. The Commission's Long-Range Strategic Plan provides a blueprint for orienting Kentucky's efforts to support the military industry throughout the state. The Strategic Goals provide the framework for the Commonwealth's efforts to preserve and expand our military activities. These can be found on the Commission's web site at http://kcma.ky.gov.

PROMOTING ECONOMIC DEVELOPMENT

1.8 Skills Training and Investment Credit

I. ***CHALLENGE:*** To improve the skill level, education and training of Kentucky workers, and to improve worker productivity that will lead to higher wages and a higher per capita income for Kentucky workers.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor believes that many existing businesses and industries must be encouraged to sponsor training for their workers to upgrade on-the-job skills, and thus make their employees more productive. To encourage training activities, the Governor proposed and successfully won passage of a tax credit for existing companies who sponsor skills and occupational upgrade training for their employees.

III. ***PROCESS AND APPROACH:*** As a result of Governor Patton's leadership, the 1998 General Assembly enacted the Skills Training Investment Credit Act. This initiative allows qualified companies to recover 50 percent of their approved costs for skills and occupational upgrade activities.

The Investment Credit is limited to $500 per existing employee, and in the aggregate, not to exceed $100,000 for each company per biennium. Training can be provided by employees of a company, an instructor with an educational institution, or a training consultant under contract. Investment credits are limited to $2.5 million per fiscal year.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Gene Strong, Secretary of the Cabinet for Economic Development*** (ph. 564-7670); ***Donna Duncan, Commissioner, Department of Financial Incentives*** (ph. 564-7670); ***Ken Carroll, Executive Director, Bluegrass State Skills Corporation, Department of Financial Incentives*** (phone 564-2021).

V. ***GOALS AND TIMEFRAME:*** The Bluegrass State Skills Corporation (BSSC) began approving Skills Training Investment Credit proposals in December 1998. During fiscal year 2002-03, the BSSC preliminarily approved 42 projects totaling $2,332,420.07. The percentage of credits approved for high performance companies (a company that has met and maintained the requirements for ISO or QS registration, Six Sigma, or the Baldrige criteria) totaled 78 percent. Since program inception, a total of 117 companies have been preliminarily approved for $6,889,998.31 to train 19,052 Kentucky residents. Twenty-nine of these companies have met the requirements for final approval for a total of $1,630,367.79 in tax credits.

PROMOTING ECONOMIC DEVELOPMENT

1.9 Venture Capital Fund

I. ***CHALLENGE:*** To develop more successful small businesses in Kentucky by providing a means for entrepreneurs to obtain needed capital. Kentucky is ranked in the lower half of the nation in domestic venture capital companies.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor believes it is vital to encourage entrepreneurs to start successful new businesses in Kentucky. However, he realizes that entrepreneurs must have capital in order to turn the small business of today into the large corporation of tomorrow. In 1998 he signed into law the Kentucky Investment Fund Act (KIFA), which encourages investment in small business through the use of income tax credits.

III. ***PROCESS AND APPROACH:*** Governor Patton successfully proposed to the 1998 General Assembly the creation of the Kentucky Investment Fund Act, a program that authorizes tax credits for individual and corporate investors in privately operated venture capital funds. In 2002 the Kentucky Investment Fund Act (KIFA) was amended to further promote investment in small businesses in Kentucky. Under KIFA, upon recommendation by the Office of the New Economy (ONE), the Kentucky Economic Development Finance Authority (KEDFA) approves venture capital funds and their fund managers. Approved funds must invest cash contributions from investors in eligible small businesses, as defined in the Act. The law authorizes $40 million in tax credits, with a maximum of $8 million in credits per fund. Through this tax credit approach, up to $100 million could be available for investments in Kentucky's small businesses. The current budget limits the available tax credits to $3 million in tax credits for each of fiscal years 2002-03 and 2003-04.

Individual and corporate investors (including insurance companies and financial institutions) are entitled to a tax credit equal to 40 percent of their cash contributions, which can be taken in the year following the year the investment is made. Tax credits cannot be taken until a qualified investment has been made. The tax credit amount that may be claimed by an investor in any tax year shall not exceed 50 percent of the initial aggregate credit amount approved by the authority for the investment fund which would be proportionally available to the investor. The credits also can be carried forward for up to 15 years. For a small business to qualify and receive tax credits, it must have more than 50 percent of its assets, operations, and employees located in Kentucky, a net worth of less than $5 million, or $10 million for knowledge-based businesses, and 100 or fewer employees. Investors will not receive any tax credits for investments made outside Kentucky.

IV. ***LEADERSHIP AND CONTACT PERSONS:* *Gene Strong, Secretary of the Cabinet for Economic Development*** (ph. 564-7670); ***Dr. Bill Brundage, Commissioner of the Office of the New Economy, Cabinet for Economic Development*** (ph. 564-0531); ***Donna E. Duncan, Commissioner, Department of Financial Incentives*** (ph. 564-7670).

V. ***GOALS AND TIMEFRAME:*** One fund, with a total of $4.9 million in contributions and $2.0 million in tax credits representing 16 investors, was approved by KEDFA prior to the 2002 amendments to KIFA. ONE staff is working with potential investor groups seeking to establish funds in conformance with the revised statute.

PROMOTING ECONOMIC DEVELOPMENT

1.10 Unemployment Insurance Tax Restructuring

I. ***CHALLENGE:*** To assure that Kentucky's workforce and business community enjoy the protection of a sound and cost-effective Unemployment Insurance (UI) program, to preserve the integrity of the Unemployment Insurance (UI) Trust Fund and to invest in future service delivery capacity while returning the maximum possible dollars to the state's economy through increased benefits and lower business taxes.

Governor Patton's administration has witnessed the nationwide pendulum swing from the prosperity of the second half of the 1990's to the economic downturn that began the new century. Nowhere is the impact of this dramatic shift on Kentucky workers and businesses more evident than in the statistics of the UI program.

Kentucky's economy during the second half of the 1990's enjoyed prosperity and growth at least equal to that of the national economy. There were near record low unemployment rates and near record low numbers of workers receiving UI benefits. By May 2000, the UI Trust Fund had an unprecedented balance of $725 million, while the average payment for a full week of unemployment was $223.39, the highest in the history of unemployment insurance payments to workers in Kentucky at that time. In this environment many of Kentucky's employers were assessed at the lowest UI tax rate because of the healthy state of Kentucky's economy and Trust Fund.

The necessity of that healthy Trust Fund became evident in the years that immediately followed. Reversing a five-year trend of declining initial claims in each year commencing in 1995, during which time claim filing decreased from 320,817 in that year to 223,699 in 1999, in 2000 initial claims increased to 247,870. This was followed by a massive jump to 350,546 claims filed in 2001, as the rate of total unemployment increased from 4.1 to 5.5 percent. While initial claims declined in 2002 to 318,762, total benefits paid to Kentucky's unemployed workers increased, from nearly $423.2 million in 2001 to over $481.3 million.

Meanwhile, Kentucky businesses saw their unemployment tax cost increase by $55.5 million between 2001 and 2002, as rising benefits triggered the first tax rate schedule increase in two decades. By February 2003, the Trust Fund balance stood at just under $409.5 million.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has long recognized the vital role played by the UI program in assisting Kentucky workers and their families through the hardship of unemployment, and in preserving local communities disrupted by economic downturns. The success of Kentucky's UI program has been built on a unique partnership of business, labor and state government, which first was forged during the 1982 General Assembly in response to the crisis of a major recession which left the state dependent on over $200 million in federal loans to continue paying unemployment benefits. Rebuilding the program required sacrifices by both business in the form of higher taxes, and labor in the form of frozen benefit levels. The result of this collaborative effort was a strong Unemployment Trust Fund that with the beginning of the 1998 Regular Session of the General Assembly had reached $571 million and was projected to reach $777 million in 2001.

Since this exceeded the level required for Trust Fund adequacy to meet projected future benefit demands, Governor Patton recognized the opportunity to reward the past sacrifices of business and labor alike by reducing unemployment taxes while increasing benefit amounts for the unemployed. Over two legislative sessions, Governor Patton reduced taxes for employers and enhanced benefits for unemployed workers by approximately $85 million. At the same time, the Governor saw the further opportunity to eliminate the traditional "unemployment line" in Kentucky through the one-time investment of a portion of the reduced employer payments to upgrade the service delivery capacity and enhance technology of the Department for Employment Services.

With the UI Trust Fund experiencing significant growth, the Governor began exploring the possibility of leveraging this growth, for the benefit of tax paying employers and those claimants receiving unemployment insurance benefits. The combined result of UI program changes during the 1998 and 2000 legislative sessions was a reduction of $55 million in annual taxes for business in the state, while also enhancing benefits to workers by $30 million.

In keeping with Governor Patton's commitment to a strong UI Trust Fund as the first line of defense for Kentucky's families and businesses in an economic downturn, the unemployment tax restructuring and benefit enhancements carried out during his administration have been prudent and cautious. While returning millions of dollars in tax savings and benefit increases to Kentuckians when the economy was strong, he assured that adequate Trust Fund reserves would be available when and if needed. With many states across the nation facing the bankruptcy of their Unemployment Trust Funds as a result of the recent recession, the wisdom of his approach has been demonstrated.

III. ***PROCESS AND APPROACH:*** Governor Patton played an active role in developing the legislative proposal that was introduced in the 1998 General Assembly as Senate Bill 296, first working with labor and industry leaders on the UI Legislative Task Force to engage their support, and ultimately seeing it through unanimous passage by both the Senate and House. In 1999 and 2000, Senate Bill 296 generated an additional $35 million per year for the economy of Kentucky, with $17.5 million in reduced business unemployment taxes, and $17.5 million in additional unemployment benefits to workers. On the employer side, this tax cut was the first general tax rate reduction since 1990, and the first tax schedule with lower rates in 40 years. Approximately 67,800 existing businesses with positive reserve account balances shared in the reduction. On the benefit side, approximately 120,000 claimants saw an increase averaging well over 6.5 percent.

This restructuring was followed by further changes in the 2000 General Assembly, when the budget enacted during that session reduced employer taxes by an additional $37.5 million, while increasing benefits by $12.5 million. Under this second tax schedule reduction in as many years, 11,277 employers paid no unemployment tax whatsoever for 2001, while some 90,000 claimants shared in the benefit increase.

In the aggregate, therefore, from 1999 through 2001, Governor Patton's tax restructuring and benefit enhancements were responsible for an additional $155 million available to Kentucky's economy.

Aside from this immediate effect, an additional major provision of Senate Bill 296 was the establishment of a Service Capacity Upgrade Fund (SCUF), to be used solely for upgrading the technology base and service delivery capacity in support of programs administered by the Department for Employment Services. Funded by an offset from employer UI taxes for the years 1999, 2000, and 2001 only, this generated $27 million with no net cost to business. This program provided investment money for the reengineering of UI and Job Service functions which has: 1) substantially reduced the handling of paper documents, allowing the redirection of staff time to direct service delivery; and 2) provided claimants and employers much greater convenience and flexibility in obtaining information and services, both by telephone and via the Internet.

During 2002, Kentucky processed 38,781 claims electronically, filed by employers on behalf of their workers. This was 12.2 percent of the total claims filed that year. Not one of these individuals reported to the Department's local offices, not one paper claim was taken and the employers received no hard copy notices of claim. This saved over 14,000 staff hours, time that has been redirected to providing other services to employers and jobseekers at no additional cost to taxpayers.

During the same year, 1,685 employers submitted their quarterly wage and tax reports and payments electronically. More than half of the total wage records of Kentucky's workforce are now submitted electronically, assuring more prompt and accurate availability of this information for benefit eligibility determinations.

By the end of 2003, Kentucky will have in place electronic benefit claim filing processes that were funded by the Service Capacity Upgrade Fund (SCUF) and that will realize Governor Patton's goal of elimination of the "unemployment line" in Kentucky.

The UI Trust Fund tax structure is designed to adjust in reaction to changes in the economy, and as noted above the beginning of 2002 saw an increase in some employers' UI tax rates as a result of increasing claims and decreasing investment income. In July 2000, the numbers of workers filing initial claims began rising in relation to the corresponding month for the prior year. This trend continued for approximately two years as Kentucky saw large numbers of manufacturing plants move their production south of the border, downsize or consolidate with facilities in other states. This circumstance had a profound impact on the total taxable wages that are the basis of UI Trust Fund revenue. Nevertheless, the increase to a higher rate schedule in 2002 and the continuance of that schedule for 2003 has simply returned Kentucky employers to the lowest tax rate schedule that was possible prior to the successive reduced tax schedules enacted under Governor Patton. After receiving the benefit of $90 million in reduced taxes between 1999 and 2001, Kentucky's employers are once again called upon to maintain their investment in economic security through a strong Trust Fund.

The rapid decline in the Trust Fund balance over the past three years is naturally a matter of concern, and under Governor Patton's leadership budget analysts from the Governor's Office for Policy and Management are working with staff from the Department for Employment Services and economists with the University of Kentucky to ensure that the Trust Fund and the unemployment tax rate structure are adequate to meet Kentucky's needs for the foreseeable future. Based on the most current economic projections, it was determined that no action was required during the 2003 General Assembly to preserve the integrity of the Trust Fund.

In March 2002, Kentucky received a Reed Act distribution from the United States Department of Labor (USDOL) in the amount of $103.7 million. The

Reed Act dollars are presently being used to bolster the UI Trust Fund and can also be used for administrative purposes of the Unemployment Insurance and Wagner Peyser programs of the Department for Employment Services.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Willie Lile, Secretary of the Workforce Development Cabinet*** (ph. 564-6606); ***James F. Thompson, Commissioner, Department for Employment Services*** (ph. 564-5331).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to maintaining a strong Unemployment Insurance program to benefit all of Kentucky's working families and businesses. When completed (by the end of calendar year 2003), the Department for Employment Services will provide the citizens of Kentucky with the most technologically advanced employment service delivery system in the nation.

PROMOTING ECONOMIC DEVELOPMENT

1.11 Knowledge-Based Economy Initiative

I. ***CHALLENGE:*** To develop an entrepreneurial culture and forge a partnership between academia, business, and government that will grow a competitive knowledge-based economy in Kentucky.

II. ***GOVERNOR PATTON'S POSITION:*** States recognized as leaders in the emerging knowledge-based economy, such as Massachusetts, California, Colorado, and Maryland have a considerable head start on Kentucky. By nearly every measure relevant to the new economy, Kentucky does not fare well when compared to other states. A well-regarded gauge of state's performance in the new economy is the *Milken Institute's New Economy Index* which ranked Kentucky 46th overall on its 2002 survey. Contributing to this lagging performance is Kentucky's persistently low educational attainment, particularly in the areas of science and engineering. Governor Patton recognizes that to create the dynamic companies and jobs necessary to compete in the 21st Century economy, Kentucky must develop a strong research and development infrastructure, an entrepreneurial climate that encourages the commercialization of ideas, and a highly trained workforce.

III. ***PROCESS AND APPROACH:*** Governor Patton has forged a firm foundation on which to build Kentucky's future economic prosperity by successfully defending primary and secondary education reforms established in 1990. He further enhanced Kentucky's knowledge infrastructure by reforming postsecondary education, enhancing adult literacy programs, and increasing the number of world-class professors at Kentucky's public universities through the "Bucks for Brains" program. Finally, the Governor addressed the earliest years of intellectual development through his early childhood development initiative.

Governor Patton signaled his determination to position the Commonwealth to compete successfully in the emerging economy when he championed the passage of House Bill 572, the *Kentucky Innovation Act,* during the 2000 Regular Session of the General Assembly. It outlined a bold vision of a "strong, entrepreneurial economy in Kentucky, characterized by knowledge, innovation and speed" that will reach maturity within a decade. No area of the state was overlooked as the measure included provisions especially geared to foster the development of the new economy in both urban and rural areas of Kentucky. The legislation laid out a new economy blueprint for Kentucky that is comprehensive and multidimensional. Programs established by the bill are housed not only under the Economic Development Cabinet, but also the Council on Postsecondary Education, Kentucky Science and Technology Corporation, and the Kentucky Community and Technical College System (KCTCS). The *Kentucky Innovation Act* created research and development support programs, manufacturing modernization services, and provided the necessary fiscal stimulus to create, attract, incubate, and grow high-tech firms. Moreover, the measure established the Office for the New Economy (ONE) to lead the statewide initiative to spur the growth of the knowledge-based economy. Finally, the legislation created the Kentucky Innovation Commission to oversee the activities of the entire new economy system via a 15-member board.

The Governor recommended, and the General Assembly approved, funding of an unprecedented level of $53 million for the 2000-2002 biennium to support these efforts.

Governor Patton refined his new economy initiative with the passage of House Bill 525 enacted in the 2002 Regular Session of the General Assembly. The legislation created a network of Innovation and Commercialization Centers (ICC's) located across the Commonwealth that provide business-building services geared to the special needs of new economy firms. The centers link scientists and entrepreneurs with innovation-related funding tools created two years earlier under the *Kentucky Innovation Act* so that these fledgling firms develop into "investment ready" enterprises. House Bill 525 also established a research facilities corporate tax credit to spur investment in facilities that are used to pursue research. Moreover, the legislation modified the Kentucky Investment Fund Act (KIFA) to remove barriers that dampened participation in a tax credit program designed to stimulate early-stage venture or angel investment in small Kentucky companies.

Governor Patton's ten-year strategy to develop a knowledge-based economy in Kentucky was outlined in *Kentucky Innovation: Strategic Plan for the New Economy*, published in March 2002. The Plan recognizes Kentucky's current position in the knowledge-based economy, identifies those new economy niches where Kentucky might gain a competitive edge within a decade and establishes the public policy framework necessary to achieve results. It clearly defines goals, sets priorities and charts a strategy to achieve success in the new economy. *Kentucky Innovation* establishes five priority research-funding areas that will guide future state investment in public university research efforts. These are areas that Kentucky has the best opportunity to gain national prominence and fields that can yield significant technology transfer and commercialization opportunities. The five research funding areas are:

1. Human Health and Development

2. Biosciences

3. Information Technology and Communications

4. Environmental and Energy Technologies

5. Materials Science and Advanced Manufacturing

The plan further identifies new economy investment opportunities that will support the development of high-tech clusters around the research areas:

1. Natural Products Center/ Investment Fund

2. Center for the Development of Circulatory Assist Devices

3. Kentucky First

4. Kentucky Visioning Center

5. Kentucky Energy and Environmental Consortium

6. Safety and Security Center

7. Rural New Economy Business Building Initiative

The General Assembly demonstrated its continued commitment to the plan by providing $32.3 million ($10 million agency funds, $15 million bond funds, $2.3 million in Coal Severance funds and $5 million General Fund) for projects over fiscal years 2002-03 and 2003-04. These funds will ONE to continue to develop the five-priority research funding areas, and to make substantial investment in the seven special opportunities identified in the plan.

During its first three years of operation, ONE has invested in nearly 40 projects across the Commonwealth in both urban and rural settings. It has successfully forged public-private partnerships that are expected to grow and attract technology-based companies to Kentucky.

The Innovation and Commercialization Centers created by House Bill 525 are charged with bringing together quality deals with private equity creating funding opportunism for both angel investors and venture capital firms. ONE has opened all six Innovation and Commercialization regional affiliate centers to provide the expertise and support services necessary to develop and mature ideas into investment-grade companies.

In the Spring of 2003 nearly a half-dozen investment firms applied for the KIFA tax credits created under House Bill 525. ONE is overseeing the evaluation of the applications and expects to present its recommendations to the Kentucky Economic Development Finance Authority Board at the board's July 2003 meeting. These tax credits will complement another initiative, the Commonwealth Seed Capital Fund that was formed by the Economic Development Partnership Board at the request of ONE with funds from its High-Tech Investment Pool. Funds from Commonwealth, LLC make available new venture capital dollars to venture capital firms committed to investing in early-stage, fast-growth companies. Private sector dollars are leveraged against state funds at a 3:1 ratio. Most of these funds have been committed. These initiatives will improve access to capital for Kentucky's fledgling, high-potential technology firms.

IV. ***LEADERSHIP AND CONTACT PERSONS: Dr. Bill Brundage, Commissioner of the Office for the New Economy, Cabinet for Economic Development*** (ph. 564-0531).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to the full implementation of *Kentucky Innovation: Strategic Plan for the New Economy.* Much of the strategic plan infrastructure implementation is already well underway as Innovation and Commercialization Satellite Centers open at 15 rural sites over the next few months and investments are made in new products and fledgling firms across the Commonwealth.

PROMOTING ECONOMIC DEVELOPMENT

1.12 Coal Recovery Plan

I. ***CHALLENGE:*** To develop a program to allow the coal industry in Kentucky to compete in an environment where it is increasingly difficult due to more stringent federal environmental regulations, increased electricity generation from natural gas, and forces that are depressing the price of coal in the region.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton recognizes that the coal industry in Kentucky faces more impediments to the marketability of its product than it has at any point in the past. Recent amendments to the federal Clean Air Act, and ensuing regulations, have made it increasingly difficult for utility companies that have traditionally burned Kentucky coal as fuel for generating electricity to continue to do so. Utility companies are turning to natural gas fired plants as a generation source in order to comply with the new regulations, even though the supply and transmission capacity of natural gas is inadequate to meet future electricity demand. Additionally, improvements in coal transportation have allowed cleaner-burning western U.S. coal to capture portions of the market in this region that have traditionally been supplied by coal from Kentucky.

Some surrounding states have compounded this problem by enacting state legislation designed to provide tax credits for the purchase of their domestic coal. Furthermore, the federal government also allows tax credits for some coal synthetic fuels ("synfuels") that have had the effect of capturing a portion of the traditional Kentucky coal market and artificially depressing the price of coal by between $2 to $4 per ton.

Coal-fired electricity generation currently comprises almost 52 percent of the entire electricity supply in this country. With demand for electricity on the rise, and with the recognition that coal accounts for 85 percent of this country's fossil fuel resources, Governor Patton believes that programs which recognize that coal will continue to play the dominant future role in generation make the most sense. He believes that technologies are emerging which will allow coal to be burned more cleanly, and that incentives should be provided to encourage this important research and development, which also benefits the environment.

III. ***PROCESS AND APPROACH:*** In addition to other efforts to assist the coal industry, such as workers' compensation reform, Governor Patton advocated a three-part coal recovery package in the 2000 Regular Session of the General Assembly. This program was designed to encourage new coal-fired electricity generation near fuel sources, increase the market demand for Kentucky coal, and provide incentives to increase production.

The first component of the program, legislation to provide a tax credit for the purchase of Kentucky coal easily passed the Kentucky General Assembly. In recent years, other states such as Virginia and Ohio have enacted similar legislation designed to allow purchasers of their domestic coal to take credits, thus providing an incentive to purchasers. In order to counteract this trend, Governor Patton won passage of legislation that allows purchasers a $2 per ton tax credit for additional coal burned above the amount purchased in the base year of 1999. The legislation was designed in this manner to only allow a tax credit for additional coal above and beyond that which was already being purchased.

The second component of the program is a new economic development incentive category also passed by the legislature in 2000. This program makes construction of new coal-fired electricity generation built in a coal producing county eligible for incentives similar to those offered under existing rural economic development programs (such as sales tax abatement on construction materials and wage assessments on new employees). Governor Patton is hopeful this program will cause generating companies to locate new generation near available fuel sources.

The third component of the program is a thin-seam coal tax credit to encourage coal companies to mine coal that is often left unmined at present. Under this program, coal companies are eligible to recoup the costs of recovering thin coal seams that are more difficult and costly to mine, and thus the program provides incentives for companies to increase production in this area.

IV. ***LEADERSHIP AND CONTACT PERSON: Henry C. List, Secretary of the Natural Resources and Environmental Protection Cabinet*** (ph. 564-3350).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to helping the coal industry in Kentucky remain viable is an ongoing one. In addition to the three part legislative program, Governor Patton has been very vocal in pressuring the federal government to end the abuses under the federal coal synfuel tax credit program. As mentioned earlier, this federal tax credit is having the unforeseen consequence of costing Kentucky coal significant market share and depressing the price of coal in the region. In lieu of this often-abused credit, the Governor advocates federal legislation that would provide federal investment tax credits so that utility companies burning coal could abate some of their costs of building and retrofitting power plants to comply with federal clean air regulations.

PROMOTING ECONOMIC DEVELOPMENT

1.13 Economic Opportunity Zone Initiative

I. ***CHALLENGE:*** To alleviate unemployment and encourage investment in qualified areas of chronically depressed inner cities and eligible counties in the Commonwealth.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton and the Economic Development Cabinet worked in partnership with the 2000 General Assembly for the passage of legislation establishing Economic Opportunity Zones within urban areas and eligible counties. Under this legislation, an approved company may receive up to a 100 percent tax credit against its state income tax liability on the taxable income generated by a new or expanding manufacturing, service, or technology industry operation. Counties certified as Kentucky Rural Economic Development Act (KREDA) counties may also request certification of an entire county as a qualified zone in addition to cities of the first class or urban county governments. These entities must apply to and be approved by the Kentucky Economic Development Finance Authority (KEDFA).

III. ***PROCESS AND APPROACH:*** The Opportunity Zone legislation established a qualified zone area consisting of up to five contiguous census tracts that have: 1) a minimum poverty rate of 150 percent of the U.S. poverty rate; 2) an unemployment rate which exceeds the Kentucky unemployment rate; and 3) a minimum population density of 200 percent of the average Kentucky census tract population density. Projects located within the zones must create and maintain a minimum of ten new full time jobs with a total capital investment for the project exceeding $100,000.

In addition to recovering fixed asset costs of a project through tax incentives, an approved company may assess a job development fee of up to 5 percent of the gross wages from employees hired within the census tract. Employees in turn recoup this fee through a state income tax credit and occupational license fee credit equal to 100 percent of the assessment.

As part of the Executive Budget of 2000-2002 grant funds totaling $2 million were made available to approved zones on a one-time funding basis. All of these grant funds have been obligated and most fully disbursed.

IV. ***LEADERSHIP AND CONTACT PERSONS: Donna Duncan, Commissioner, Department of Financial Incentives, Cabinet for Economic Development*** (ph. 564-4554).

V. ***GOALS AND TIMEFRAME:*** Governor Patton's commitment to increasing opportunities in particularly depressed areas is ongoing. To date, four communities with eligible census tracts and 14 KREDA counties have requested and been certified as Economic Opportunity Zones. One project has received final approval and four others have received preliminary approval.

PROMOTING ECONOMIC DEVELOPMENT

1.14 Economic Development Modernization

I. ***CHALLENGE:*** To address Governor Patton's overall goal to "Set Kentucky on a path to achieving economic opportunity and a standard of living above the national average in 20 years," modernizing economic development programs ensures that Kentucky only invests in those companies that assist the state in meeting this goal. The desired result is enhanced economic opportunities and better paying jobs for all Kentuckians, a focus toward the quality of jobs, not just the quantity.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has been concerned that the citizens of Kentucky receive a fair return in the form of high quality, fair wage jobs when the Commonwealth provides incentives to companies to locate or expand. Companies applying for tax credits are now required to meet minimum wage and benefit thresholds. Kentucky's incentive programs have proven to be highly effective at job creation, but greater emphasis must be placed on increasing wages for Kentuckians.

The Kentucky Rural Economic Development Act (KREDA) program, one of the state's most successful business incentive programs targeted specifically for economically depressed counties, was also evaluated. KREDA eligibility had been based on a county meeting one of two unemployment based criterion. By developing a third criterion for determining which counties would be KREDA eligible counties, the state has been able to increase the number of eligible counties. The new criterion uses educational attainment levels and road quality, in addition to unemployment to ensure that those counties that are truly economically distressed will be eligible to use the KREDA incentive program.

The Local Government Economic Development Program (LGEDP) needs revision to allow clarification of funding for telecommunications infrastructure. In addition, coal impact counties identified the need for additional program funding from the coal severance tax program.

III. ***PROCESS AND APPROACH:*** Representatives from the Economic Development Cabinet, Office of State Budget Director, Tourism Development Cabinet, Revenue Cabinet, Governor's staff, and Governor Patton were involved in the passage of legislation through the General Assembly in 2002 that modernized Kentucky's economic development programs.

The Kentucky Economic Development Finance Association (KEDFA) Board adopted wage and benefit thresholds and certified additional KREDA counties with the enactment of House Bill 372. House Bill 372 also established a more effective means for approving and administering Tax Increment Financing (TIF) and Industrial Revenue Bond (IRB) projects that that seek the utilization of state revenues. Updated fact sheets describing the TIF development programs, the established IRB procedures, and all other economic development incentive modifications have been prepared and are available on the Cabinet's web site. http://www.thinkkentucky.com/

Development of telecommunications infrastructure became an eligible activity for funding under the LGEDP as a result of action taken by the 2002 General Assembly. The percentage of coal severance funding to coal impact counties was increased from 13 percent to 15 percent.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Gene Strong, Secretary of the Cabinet for Economic Development*** (ph. 564-7670); ***Donna Duncan, Commissioner, Department of Financial Incentives,*** (ph. 564-4554); ***Hugh Haydon, Commissioner, Department for Regional Development*** (ph. 564-5645).

V. ***GOALS AND TIMEFRAME:*** The first goal of passing legislation modernizing Kentucky's economic development programs was accomplished with the adoption of House Bill 372 by the 2002 General Assembly. All affected economic development programs have been updated to reflect these changes. To date, one IRB application has been approved by KEDFA.

PROMOTING ECONOMIC DEVELOPMENT

1.15 Sustaining Agricultural Economy

I. ***CHALLENGE:*** To assure that Kentucky's farm families and rural communities have ample opportunities to develop and sustain farm-based economic activities that enhance the Commonwealth's rural character and bolster statewide economic development.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton firmly believes in the invaluable contributions made to Kentucky's quality of life by farm families and their communities. Agriculture employs over 250,000 Kentuckians and generates over $20 billion in related sales and services annually. Governor Patton recognizes the extreme conditions faced by Kentucky's farm families as commodity prices drop to record lows and changes in the tobacco industry fuel uncertainty for the economic future. He has steadfastly supported Kentucky tobacco farmers and strongly supports a buyout of federal tobacco program quotas and structural modifications to the federal tobacco program. Kentucky tobacco farmers have faced significant reductions in their tobacco quotas and unprecedented attacks on their industry.

There exists a critical need for bold and aggressive leadership in the cause of preserving Kentucky's rural character through the preservation of its family farm operations. Farm families have a variety of needs which must be addressed for them to be successful, including conservation assistance, business planning, marketing assistance, infrastructure and market development for new crops and products, labor assistance, and risk management. The survival and success of farm families in the 21st century is critical to the well being of consumers, rural and urban communities, the environment, and the economy.

III. ***PROCESS AND APPROACH:*** In July 1998, Governor Patton established the Governor's Commission on Family Farms, the first group comprised primarily of family farmers to focus exclusively on the interests of Kentucky's farm families and rural communities. The Commission's first recommendation was for the establishment of an agricultural entrepreneurship program to provide farm families with entrepreneurial training and technical assistance. This recommendation was a key component of the Governor's 2000 legislation which set aside half of Kentucky's tobacco settlement revenue for agricultural development.

Also in July 1998, the Governor created the first Governor's Office of Agricultural Policy to provide him a direct link to one of the state's most important industries. In addition to administering the Kentucky Agricultural Development Board, the Kentucky Tobacco Settlement Trust Corporation, the Kentucky Center for Agricultural Development and Entrepreneurship, the Governor's Commission on Family Farms, and the Kentucky Agriculture Resource Development Authority, this office developed a comprehensive agricultural development strategy based on marketing and market development, expanding access to capital for agricultural ventures, agricultural entrepreneurship, farmland preservation, environmental stewardship, support for local leadership, farm family education and computer literacy, and research and development. In 2001 the Office led state efforts to secure up to $85 million in federal funds for conservation efforts targeted in the Green River area. The office works with the Council on Postsecondary Education and the Economic Development Cabinet to integrate agricultural development with new economy initiatives through the recruitment of agricultural biotechnology companies to provide high technology, high wage jobs to rural citizens and provide another value-added market for farmers. Governor Patton believes Kentucky can become a major player in this new and thriving high technology industry.

On tobacco issues, Governor Patton has been personally active on three separate fronts, as detailed below.

A. **National Tobacco Settlement (Phase I).** In December 1998 Governor Patton and Attorney General Chandler agreed that Kentucky would join 45 other states in signing the national tobacco settlement agreement between the state attorneys general and the four major tobacco companies. The settlement was valued over 25 years at $206 billion, and included provisions for reduced advertising, ending the targeting of children as potential smokers, and the creation of foundations to promote awareness of the health risks associated with smoking. Kentucky expects to receive approximately $3.4 billion over 25 years. During the 2000 Regular Session of the General Assembly, Governor Patton led efforts to designate 50 percent of tobacco settlement revenue for the purpose of further developing and diversifying Kentucky's agricultural economy. In the 2000 session, Governor Patton recommended and the legislature agreed to commit over $180 million from tobacco settlement revenue through 2002 for this purpose. The Kentucky Agricultural Development Board chaired by the Governor and administered by his office leads this historic and unprecedented effort. This board invests monies from the Kentucky Agricultural Development Fund in innovative proposals that increase net farm income and affect tobacco farmers, tobacco-impacted communities and agriculture across the state through stimulating markets for Kentucky agricultural products, finding new ways to add value to Kentucky agricultural products, and exploring new opportunities for Kentucky farms and farm products.

Through July 2003 the Agricultural Development Board and its staff had reviewed over 1,800 proposals since it began receiving applications in January 2001. Over 1,200 of these projects and programs have been approved for funding, representing a commitment of over $120 million toward new agricultural diversification and development projects in every part of the Commonwealth.

The Governor's Spending Plan for fiscal year 2002-03 again committed 50 percent of the MSA revenues to this effort, the largest state-financed agricultural development and diversification effort in the history of the United States. The General Assembly concurred with the Governor's recommendation with the budget it passed during the 2003 Regular Session of the General Assembly.

The *Lexington Herald-Leader* gave special recognition to the Governor's accomplishments in agricultural development in an April 25, 2003, editorial:

> *"Give Gov. Paul Patton this: Kentucky has something to show for its tobacco settlement money. Few states can boast as much."*
>
> *"The availability of $180 million…sparked a new wave of entrepreneurs on the farm."*
>
> *"What Patton has done, in tight budget times, is shield the ag fund from becoming a pork barrel."*
>
> *"No wonder the National Governor's Association singled out Kentucky as an innovator in rural economic development: "a national model that combines top-down strategic coordination and bottom-up planning."*

B. National Tobacco Growers' Settlement (Phase II). In 1999, Governor Patton was instrumental in negotiating the National Tobacco Growers Settlement Trust, a special fund created by the four major cigarette companies to help offset income losses incurred by tobacco farm families as a result of the Master Settlement Agreement between the companies and the states. This fund totals $5.15 billion over 12 years, and Kentucky's portion over that period is approximately $1.5 billion. As Chair of the Kentucky Tobacco Settlement Trust Corporation, Governor Patton has personally overseen the administration of the trust to insure that prompt compensation is delivered from the trust to the tobacco farm families enduring economic crisis. The Governor has committed to minimizing the administrative expenses of the trust fund so that the maximum amount possible can be devoted to Kentucky's farm families. The Kentucky Tobacco Settlement Trust Corporation administered by the Governor's Office leads all 14 states participating in the trust fund in maintaining the lowest levels of administrative expense. The state that compares most closely to Kentucky in terms of dollars and numbers of persons involved is North Carolina. For the 2002 annual trust fund payment, North Carolina's administrative expenses totaled over $4.5 million, while Kentucky spent less than $900,000 to deliver over $130 million to some 155,000 Kentuckians.

C. **National Agricultural Policy.** In October 2000 Governor Patton proposed a federal buyout of tobacco quotas to modernize tobacco production in Kentucky and the rest of the United States to make American tobacco more competitive on the world market. The Governor's proposal resulted in the creation of the first Presidential Commission on Tobacco Farm Issues. The Governor believes that by fairly compensating quota owners, eliminating the leasing of tobacco quotas, moving the right to grow and market tobacco into the hands of active producers, and making prices for American grown tobacco more globally competitive, the Kentucky tobacco industry can secure a greater share of both domestic and foreign markets. The Governor believes steadfastly in the continuation of a federally managed tobacco supply management program and a market sensitive price support, and in the provision of federal funds to finance a buyout of tobacco production quotas in all tobacco-producing states.

IV. ***LEADERSHIP AND CONTACT PERSON: Gene Royalty, Executive Director, Governor's Office of Agricultural Policy; Chief Executive Officer, Kentucky Agricultural Development Fund*** (ph. 564-4627); ***Jeff Harper, President, Kentucky Tobacco Settlement Trust Corporation*** (ph. 564-4627).

V. ***GOALS AND TIMEFRAME:*** Governor Patton has begun aggressive efforts to lead the Kentucky Agricultural Development Board in its administration of Phase I funds. The Board has established operations policies and procedures and completed the first version of its Comprehensive Long-Term Plan for Kentucky Agriculture in March 2002.

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Improving Education Product

Improving Education Product

- Postsecondary Education Reform
- KERA Support: Progress in Elementary and Secondary Education
- Budget Increases for Elementary and Secondary Education
- School Safety Initiative
- Guaranteed COLA for Teachers
- Kentucky Educational Excellence Scholarships
- Adult Education and Literacy
- "Go Higher, KY, Education PAYS!" Campaign
- Family Literacy
- Teacher Training and Professional Development
- Lowering the High School Dropout Rate
- Family Resource and Youth Services Centers
- Secondary Vocational Education Reform

IMPROVING EDUCATION PRODUCT

2.1 Postsecondary Education Reform

I. ***CHALLENGE:*** To ensure that Kentucky's postsecondary education system is positioned to provide the human capital needed to allow the Commonwealth to be a leader in the global economy of the 21st Century.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor has repeatedly stated that he will address no issue as important as this one during his tenure as Governor. His effort, leadership, and vision on this issue have made him a leading national figure in postsecondary education. Before the enactment of the Governor's landmark Postsecondary Education Improvement Act of 1997, the Governor stated that he was willing to make an additional $100 million per year commitment (by the year 2000) to improving postsecondary education. However, he was steadfast that the commitment only stood if the Commonwealth's institutions and universities were willing to make major structural and administrative changes.

The cornerstones of the Governor's reform legislation are six specific goals that the new Council on Postsecondary Education is charged with strategically achieving by the year 2020. These are: 1) a seamless, integrated system of postsecondary education strategically planned and adequately funded to enhance economic development and quality of life; 2) the University of Kentucky ranked nationally among the top 20 public comprehensive research institutions; 3) the University of Louisville nationally recognized as a metropolitan research institution; 4) each of the six regional universities with at least one program of distinction; 5) a comprehensive community and technical education system ensuring access to two-year courses of study as well as meeting employers' workforce training needs; and 6) efficient and autonomous institutions delivering educational services in quantities and of a quality comparable to the national average.

In addition to the above goals, the Governor has long advocated additional key elements as part of his plan. These include a stronger coordinating council with a pre-eminent president to serve as the primary political advocate for postsecondary education improvement in Kentucky; increased access to postsecondary education; ending duplication of course offerings and reallocating resources within the system; and the use of cutting edge technologies to deliver educational opportunities to place-bound students (i.e., the "Virtual University" concept).

III. *PROCESS AND APPROACH:* After presenting to the Joint Task Force on Higher Education a carefully researched assessment of the strengths and shortcomings of postsecondary education in Kentucky in the Spring of 1997, Governor Patton called a Special Session of the General Assembly in May 1997 to address Postsecondary Education reform. The assessment brought into focus some of the continuing problems Kentucky faced, namely, low student persistence rates, lack of research quality, lack of cooperation, and needless duplication. In response, the Governor proposed a landmark piece of legislation, the Postsecondary Education Improvement Act of 1997, which incorporated all of his principles enumerated above. He also proposed a companion budget amendment bill to begin to fulfill his commitment to eventually increase postsecondary education funding by $100 million. Although the early rancorous debates in the Session focused on whether or not the community colleges should be removed from the control of the University of Kentucky, both parties hailed the remainder of the Governor's plan. Eventually, a compromise was reached whereby the University of Kentucky name remained with the community colleges, but all functional control over administration was shifted to the new Kentucky Community and Technical College System (KCTCS). The new KCTCS now has the authority to administer and coordinate programs between its Kentucky technical and community college branches. As the Special Session closed, the Governor's bill passed with bipartisan support.

The Research Challenge Trust Fund (a.k.a. "Bucks for Brains") was developed in 1997 with the passage of House Bill 1, the Kentucky Postsecondary Education Improvement Act, for strategic investment at the University of Kentucky, University of Louisville, and Kentucky's six regional universities. The program, administered by the Council on Postsecondary Education, is designed to advance the economic success of Kentucky and its citizens through education and research. RCTF provides Kentucky's universities support for ongoing efforts to attract and retain renowned faculty and researchers.

The fundamental goal of reform was to improve the long-term economic condition of Kentucky by increasing the number of Kentuckians who go to college. In 1998 there were 158,000 people enrolled in Kentucky's public colleges and universities. In the Fall of 2002 there were over 191,000. Counting enrollments in independent institutions, there were over 221,000 students in college in Kentucky in 2002. Since 1998, retention and graduation rates have also increased.

In the 1998 Regular Session of the General Assembly, Governor Patton went over and above his original financial commitment to postsecondary education. The 1998-2000 budget was the most ambitious and beneficial for postsecondary education in the state's history – and the 2000-02 budget was even more generous, increasing overall funding by a record 20 percent.

Base funding continued to grow substantially in 2000-02, ranging from 2.7 percent and 3.7 percent the first and second years of the biennium for some institutions to proportionally more for others that have been historically under funded. The RCTF (or the "Bucks for Brains" endowment match program) was expanded: the University of Kentucky and the University of Louisville once again split $100 million in public matching dollars, and the six comprehensive universities shared $20 million, double the amount in the previous biennium. Between 1998 and 2002 the universities used Bucks for Brains to create 111 endowed chairs and 176 endowed professorships. Other trust funds in the program are for regional excellence, postsecondary workforce development, technology initiatives, and improving physical facilities. Among the programs funded through the trust funds was one to encourage comprehensive universities and KCTCS to increase enrollment and retention of students.

Despite the need for cuts to the state budget in 2002 necessitated by the economic downturn, Governor Patton shielded the postsecondary system from drastic reductions.

To encourage effective and efficient use of tax dollars, the Council adopted space planning guidelines and space use standards for the postsecondary education system. The guidelines address different types of educational space – classrooms, laboratories, office space, and others. These guidelines provide the Council, the Governor and his staff, and the Legislative Branch an effective tool to evaluate the need for new or renovated space at the colleges and universities.

In 2000 the Council helped develop and approved a plan to provide more engineering education through a statewide approach built on respected programs at the University of Kentucky and the University of Louisville. Students are now able to earn engineering degrees without having to go to Lexington or Louisville, and will be better able to meet employer needs statewide.

In 2000 and again in 2002 the Council identified hundreds of academic programs at the universities that produce few graduates in a typical year. After thorough reviews by the universities, 174 academic programs were slated for closing and an additional 246 will undergo significant changes as a result of this effort. In 2002 the Council conducted a second round of reviews. As a result, an additional 93 underutilized programs will be closed or changed.

Also in 2000 the Council took on two new and ambitious responsibilities that broadened its role in cooperating with state agencies and the private sector. First, the Council was given policy leadership for developing a statewide plan to improve and expand adult education, including literacy training. The Council also administers a $12 million trust fund. Enrollment in adult education increased from 51,000 in 2000-01 to 86,400 in 2001-02.

Second, the Council assumed a pivotal role in the statewide development of the knowledge-based economy in Kentucky. The Council works with the universities, KCTCS, Workforce Development Cabinet, Department of Adult Education and Literacy, the Office for the New Economy, and the Kentucky Science and Technology Corporation (KSTC) to identify and promote research and related entrepreneurial ventures that could create new businesses and high-skill jobs. The Council contracts with KSTC to develop and manage the five entrepreneurial and commercialization funding programs created by the Kentucky Innovation Act, House Bill 572, 2000 General Assembly.

In 2001-02, awards totaling $1,542,960 were made through the R&D Voucher Fund, Rural Innovation Fund, and Commercialization Fund to 29 faculty researchers and knowledge-based start-up companies to move emerging technologies to market. These awards represented the first round of investments in concept phase ideas and companies.

The Kentucky Science and Engineering Foundation also awarded $1,956,962 in its first round of grants to 32 Kentucky researchers and entrepreneurs to develop products that will attract high-tech manufacturing companies to the Commonwealth.

The Kentucky Experimental Program to Stimulate Competitive Research (EPSCOR) awarded $2,342,600 to 14 research proposals from the University of Kentucky, University of Louisville, Eastern Kentucky University, Kentucky State University, Murray State University, Thomas More College, and Western Kentucky University. These funds matched federal grant funds.

In 1999 the Council and the State Board of Education formed the advisory P-16 Council to coordinate education – and the training of educators – from preschool through college. The P-16 council has created a full agenda focused on aligning curricula and on teacher quality. The Education Professional Standards Board joined the P-16 Council in 2000. The Workforce Development Cabinet and the Governor's Office of Early Childhood Development joined in 2001, completing the life long learning network of providers in a common forum for planning and focusing on education.

Enrollment and the number of courses and programs offered through the Kentucky Virtual University continue to grow rapidly, drawing regional and national notice in the media and at conferences. In the Fall of 1999 (its first semester) there were 228 students enrolled. By Fall 2002, there were over 9,700. The Kentucky Virtual Library and its thousands of online publications, books, and documents – and the Kentucky Virtual High School – complete one of the country's most impressive arrays of "anywhere, any time" education. During peak periods, the virtual library services almost 800,000 searches a month. That is more than 1,100 searches an hour, every hour of every day. More than 500 people have participated in the 45 courses offered in the Virtual High School.

Working with colleges and universities, the Council has developed an Action Agenda – based on the Council's 2020 Vision – and key indicators to guide and measure progress toward House Bill 1 goals. The comprehensive universities and community and technical colleges have committed themselves to enrolling, retaining, and graduating more students. The University of Kentucky and the University of Louisville will emphasize research and its benefits to the economy and society. The Council posed five questions that all Kentuckians should continue to ask:

- Are more Kentuckians ready for postsecondary education?
- Are more students enrolling?
- Are more students advancing through the system?
- Are we preparing Kentuckians for life and work?
- Is Kentucky's economy benefiting?

The answers tell us how well we are doing. The Council monitors progress on these five goals and assigns lights to indicate progress made: red light (no progress), yellow light (some progress), and green (good progress). For more information on Kentucky's goals and the progress being made to achieve them, see the Council's website at www.cpe.state.ky.us/index/index.asp.

IV. ***LEADERSHIP AND CONTACT PERSONS: Thomas D. Layzell, President of the Council on Postsecondary Education*** (ph. 573-1555); ***Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611) ***Mary Lassiter, Acting State Budget Director, Office of State Budget Director*** (ph. 564-7300).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to higher education is a continuing one. The administration will continue to strive toward the goals set forth in House Bill 1 and work to support postsecondary education excellence in Kentucky.

IMPROVING EDUCATION PRODUCT

2.2 KERA Support: Progress in Elementary and Secondary Education

I. ***CHALLENGE:*** The 1990 General Assembly adopted the Kentucky Education Reform Act (KERA) in response to the 1989 Kentucky Supreme Court decision that found our entire system of elementary and secondary education to be unconstitutional. The intent of KERA was to set high goals and standards based on the principle that all students can learn, and most at high levels. The reforms provide for the flexibility at the school level to accomplish key goals and to hold schools and districts responsible for their achievements.

II. ***GOVERNOR PATTON'S POSITION:*** On numerous occasions after the 1996 Regular Session of the General Assembly, Governor Patton heard serious concerns related to accountability, rewards, and sanctions. Of most concern to parents, students, and teachers was the reliability of the testing method, including the use of a primarily performance-based system, used to measure progress toward meeting the goals and academic expectations of KERA. Although he believes KERA was fundamentally sound, in order to address concerns heard during the interim and to gain the confidence of parents, students, and teachers, Governor Patton served as a member of a joint executive-legislative task force to conduct a total review of Kentucky's entire system of elementary and secondary education. The task force heard testimony and various concerns during the 1996-98 interim.

III. ***PROCESS AND APPROACH:*** The Governor and General Assembly responded. The most significant adjustments were in the Kentucky Instructional Results System (KIRIS), the testing system, used to measure educational progress on which rewards and sanctions are based. A new system was developed, the Commonwealth Accountability and Testing System, or "CATS," which retained the performance-based philosophy of KIRIS, but added multiple-choice national questions. The new assessment and accountability system was first implemented during the 1998-99 school year.

The new accountability test includes a customized commercially available norm-referenced test that matches Kentucky's core content to provide valid and reliable results for the individual student. It also provides the following: open-response and multiple choice items; an assessment of student skills in reading, math, science, social studies, the arts, the humanities, and practical living and vocational studies; an on-demand assessment of writing; writing portfolios consisting of samples of student work; performance assessment events for schools that have students enrolled in performing arts organizations; and a technically sound longitudinal comparison of the assessment results for the same students.

Four years later (2003), CATS is widely accepted and Kentucky's educational testing system appears to be institutionalized. Since CATS was implemented, students at all grade levels have shown progress. Performance trend lines are going up in all subject areas and elementary, middle and high schools are reducing the percentage of novice level learners each year. For the first time since KERA was passed in 1990, school reform is no longer under attack. For four consecutive legislative sessions – 2000, 2001, 2002, and 2003 – the General Assembly has focused on improving education within the framework established in 1990. The reforms of 1990 have become accepted across the Commonwealth as Kentucky's system of public education.

Because of the unwavering commitment made to education by Governor Patton, Kentucky education reform has blossomed during his administration. In 1998 Kentucky was one of the only three states to show significant progress in reading and science on the National Assessment of Educational Progress Report. In November of 2001 Governor Patton accepted, on behalf of the Commonwealth, the National Alliance of Business "State of the Year" award, an honor given by the nation's businesses to recognize extraordinary commitment to education. In 2002 and 2003 Kentucky was one of only three states to receive an "A" in standards and accountability, according to *Education Week*. Kentucky also has the most technologically advanced classrooms in the nation.

In addition to recent KERA improvements, the first state-owned, state-operated, statewide virtual high school in the nation has been developed and went online in January 2000. The Kentucky Virtual High School (KVHS) is a site that expands student access to challenging school curriculum. Students have access to a wider range of coursework, more flexibility in scheduling and the opportunity to develop their capacities as independent learners. The ability to make Advanced Placement (AP) courses more accessible to students, especially in smaller school districts, is one of the great advantages of KVHS.

In just its third year, KVHS has witnessed a steady increase in enrollments. Over 850 students were enrolled during the 2002-2003 school term, an increase of approximately 350 over the previous year. More than 100 school districts participate and indications are that the number will increase with each academic year. The KVHS offers 45 courses, 19 of which are AP classes. In the most recent assessments, 73 percent of those taking an AP class through the Virtual High School scored a three or better on the exam – meaning college/university credit will be awarded. Four years of foreign language is also available to students throughout the Commonwealth. By any measure, KVHS is a huge success.

IV. ***LEADERSHIP AND CONTACT PERSONS: Gene Wilhoit, Commissioner of Education, Department of Education*** (ph. 564-3141); ***Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to education at all levels is a continuing one. Kentucky schools are well on their way to reaching the goal of proficiency by 2014, but there's a long way to go. If the Commonwealth expects its schools to keep improving and reach the goal of proficiency by 2014 it is imperative that resources and support needed is provided. Without that support, they risk slipping backward. The first of two financial adequacy studies of the Support Education Excellence in Kentucky (SEEK) funding program, performed by Dr. Lawrence O. Picus of USC and Dr. Allan Odden and Mark Fermanich of the University of Wisconsin at Madison, was presented to the Kentucky Board of Education on April 3, 2003. These results, based on a state-of-the-art model, show a need for significantly more funding for Kentucky to provide the educational programs needed to produce the student achievement envisioned in the KERA. The study found to provide for an adequate education program, Kentucky would need to increase current expenditures from the 2001-2002 average of \$6,020 to \$6,893, or an increase of about \$873 per pupil." This would require an immediate increase in K-12 funding of \$565 million.

The second phase based on the professional judgment of Kentucky educators was presented to the Kentucky Board of Education on June 4, 2003. This professional judgment model study indicated even higher additional funding needs. Information on these studies and their recommendations can be found at the Kentucky Department of Education web site http://www.kentuckyschools.net/.

Recognizing that education improvement does not have a termination point, and wishing to re-energize the people of Kentucky in the never-ending struggle to continuously improve education, Governor Patton hosted an Education Summit in July of 2002. The challenge presented by the court in the ruling that led to KERA was to provide every child in the Commonwealth with *an equal opportunity to have an adequate education.* At the Education Summit the Governor noted that while Kentucky has reached relative economic equity in education, the Commonwealth has not yet achieved adequacy, though progress is being made. He charged the summit's participants to take stock of where Kentucky is on the education reform spectrum and to examine ways to achieve the goals set forth by KERA. At the request of Governor Patton, five roundtables were convened following the summit. Participants included educators, legislators, and other concerned citizens who reviewed Kentucky's educational system on all levels. In February 2003, "Next Steps," a report on the status of education in the Commonwealth was released. Consistent with Governor Patton's approach – maintaining support for KERA while placing new emphasis on early childhood development and postsecondary Education realignment – "Next Steps" reemphasized that the education of Kentuckians must be viewed as a continuing spectrum and must facilitate continuous learning by all citizens. Like many other recent analyses, the report also affirmed the need for significant additional resources to honor the commitment made in 1990 for adequate as well as equitable funding of K-12 education. The Governor remains committed to realizing his vision of achieving educational excellence and high educational achievement for all Kentucky's children.

IMPROVING EDUCATION PRODUCT

2.3 Budget Increases for Elementary and Secondary Education

I. ***CHALLENGE:*** To provide adequate funding for elementary and secondary education to ensure that Kentucky's children will be provided with an adequate education to enable them to become a trained, skilled and productive generation for the 21st Century.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor is aware that money alone will not address all the educational needs of Kentucky's children. However, it's clear that sufficient funding must be provided to support programmatic changes if we are to continue to lead the nation in elementary-secondary education reform. No issue is more important to the future and well being of Kentucky than that of providing an efficient education system for our children.

III ***PROCESS AND APPROACH:*** Governor Patton's budgets have consistently made funding for elementary and secondary education a priority.

Progress during 1996-1998 Biennium

The budget as proposed by Governor Patton and enacted by the 1996 Regular Session of the General Assembly provided an increase in elementary and secondary education General Fund support of approximately $150 million when comparing fiscal year 1997-98 to fiscal year 1995-96 – a 6 percent increase.

The Budget of the Commonwealth included funding to increase the Support Education Excellence in Kentucky (SEEK) per pupil base funding level by 3.1 percent each year of the 1996-98 biennium. Funds were also included to provide a biennial increase of approximately 33 percent in the Facilities Support Program of Kentucky (FSPK) for new and renovated schools.

The enacted budget provided approximately $2.3 million – a 6.2 percent increase when comparing fiscal year 1997-98 to fiscal year 1995-96 – in new funds for the preschool program for four-year olds and also provided approximately $2.3 million in new funds – a 5.9 percent increase using the same fiscal year comparison as above – to create 33 new Family Resource and Youth Services Centers (FRYSCs).

New funding for the School Facilities Construction Commission (SFCC) (a companion program to FSPK) in the 1996-98 biennial budget was sufficient to provide debt service for approximately $50 million worth of new construction and renovation of elementary and secondary schools.

Progress during 1998-2000 Biennium

The Budget of the Commonwealth, as proposed by Governor Patton and enacted by the 1998 Regular Session of the General Assembly, increased General Fund support for elementary and secondary education by nearly $220 million when comparing fiscal year 1999-2000 with fiscal year 1997-98 – an approximate 8.3 percent increase.

The enacted budget included sufficient funds to provide a 3 percent increase each year of the 1998-2000 biennium in the SEEK base per pupil funding level. More than $9 million in new funding over the biennium was provided for the FSPK; this meant a nearly 13 percent increase in local districts' capacity to build and renovate schools.

Appropriations for the preschool program for four-year olds increased by approximately $5.7 million – a nearly 15 percent increase when comparing fiscal year 1999-2000 to fiscal year 1997-98. Funding for FRYSC was increased by approximately $4 million – a 10 percent increase when using the same fiscal year comparison as above. This increase meant an additional 59 new centers by the end of the biennium.

The Budget of the Commonwealth included an approximately $1.3 million increase for minority educator recruitment and retention – a tripling of support for this priority when comparing fiscal year 1999-2000 with fiscal year 1997-98.

Increased funding of approximately $7.1 million – when comparing fiscal year 1999-2000 with fiscal year 1997-98 – was provided the SFCC. This funding was sufficient to provide debt service to support approximately $63 million in new school construction as well as renovations.

Progress During 2000-2002 Biennium

The 2000-2002 enacted Budget of the Commonwealth provided elementary and secondary education with approximately $300 million more in additional General Fund support compared to the 1998-2000 biennium. Perhaps most significant, during a biennium where aggregate General Fund budget reductions of approximately $800 million became necessary due to revenue shortfalls, funding for elementary and secondary education programs was **not** reduced.

Recognizing that a qualified teacher is the most important element of successful learning, Governor Patton appointed a Task Force on Teacher Quality which met during the months leading up to preparation of the 2000-2002 budget. The enacted budget provided increased General Fund support amounting to approximately $12 million over the 2000-2002 biennium to implement a comprehensive reform of teacher training and related improvements. Funding was provided for a stronger Education Professional Standards Board and the Governor supported legislation establishing the board as an independent entity.

The enacted 2000-2002 budget provided $3.85 million in new General Funds each year of the biennium for equalization of funding between vocational programs operated directly by local school districts and those operated by the Workforce Development Cabinet.

Funds appropriated during the 1998-2000 biennium enabled Kentucky to reach the goal set forth in 1990 of providing a computer for every six students as well as workstations for all teachers and connection of Kentucky's schools with one another as well as Internet access for all schools. General Fund appropriations of $35 million during the 2000-2002 biennium enabled schools to maintain the progress made since 1990.

The enacted 2000-2002 budget provided debt service to enable the SFCC to fulfill $92 million in new building and renovation projects authorized by the 1998 General Assembly as well as authorizing $100 million in new offers of assistance during the 2000-2002 biennium.

Progress during 2002-2004 Biennium

The Governor's fiscal year 2002-03 Spending Plan provided elementary and secondary education with more than $60 million in additional General Fund support compared to the previous fiscal year. Though the state was faced with shortfalls in revenue, the 2003 General Assembly was able to maintain that level of support in the 2002-2004 Biennial Budget.

The SEEK program provides funds to local school districts for salaries for personnel and general operating expenses as well as capital expenditures. Base funding for the program under the Governor's Spending Plan was increased by 2.7 percent in fiscal year 2002-03, for a total of more than $37 million in additional funds compared to fiscal year 2001-02. Due to the increase in students, the first since 1993, and slowdown in growth of local property wealth, the SEEK formula required more state funds. By delaying the set-aside of funds for school rewards and the purchase of textbooks and by reductions in other state grant programs and Department of Education operations, sufficient funds were shifted to SEEK to provide base funding of $3,081 for 2003 and $3,191 for 2004, increases of .5 percent and 3.6 percent respectively. From these funds and funds raised locally, local school districts are required under existing law to give minimum salary increases of 2.7 percent to all certified personnel. Facing teacher shortages in a slow economy, the salary increases represent a significant effort to continue to recruit and retain caring and qualified teachers for Kentucky's classrooms. The Governor's Spending Plan for fiscal year 2002-03 also provided sufficient funds to enable local school districts to provide the same 2.7 percent salary increase to classified staff such as bus drivers and lunchroom workers. The biennial budget provided $14.7 million outside the SEEK formula to support the required salary increase in 2003 and requires salary increases of $1,800 for certified staff and 2.7 percent increases for classified staff in 2004.

The Budget of the Commonwealth contained a number of provisions to support school construction and renovation. It provided debt service support for $100 million in SFCC Offers of Assistance authorized by the 2000 General Assembly as well as an additional $100 million in offers authorized by the 2003 General Assembly. Districts were authorized to levy an additional five cents tax per $100 of assessed valuation for building purposes, and $3 million was provided to equalize an existing permissive five cent tax for districts with sustained student growth. In addition, funds were provided to replace the state's worst school buildings.

Six hundred thousand dollars in fiscal year 2002-03 and 2003-04 is provided in the Budget of the Commonwealth for salary supplements to teachers who successfully complete the National Board for Professional Teaching Standards certification process. This rigorous process provides teachers with a professional growth opportunity unlike any other.

The budget continues the state's commitment to technology for Kentucky's students by providing $15 million in fiscal year 2002-03 and an increase to $18.7 million in fiscal year 2003-04 to assist districts with replacement and upgrading of Kentucky's nationally recognized technology program.

At a time when many programs had to be cut to balance the budget, the preschool and state and local vocational programs were funded at prior year levels. Also, the family resource and youth services center programs are provided continuation funding in fiscal years 2002-03 and 2003-04. The preschool initiative is a cornerstone of Kentucky's education system, recognizing the need to provide assistance to the very young facing educational barriers, giving them an opportunity for success. The Family Resource and Youth Services Centers (FRYSCs) are widely regarded as one of the most useful KERA initiatives by working with students whose success in school might be impaired by such things as lack of access to medical care or a decent supply of school clothes.

An additional component of making teaching an attractive profession is a solid retirement program. The Governor's fiscal year 2002-03 Spending Plan provided sufficient funding to enable the Teachers' Retirement System to provide a 2.9 percent cost-of-living increase to retired members. The enacted budget included this increase for fiscal year 2002-03 and provided for an additional 3 percent in fiscal year 2003-04.

IV. ***LEADERSHIP AND CONTACT PERSONS: Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611); ***Gene Wilhoit, Commissioner of Education, Department of Education*** (ph. 564-3141).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to education at all levels is a continuing one. Thanks to the enactment of the new SEEK funding formula in 1990; experts both within and outside Kentucky largely agree that the goal of equitable funding between and among schools has been met. However, there is comparable consensus surrounding the need for additional resources to fulfill the other promises of KERA and to give local school districts the full array of tools needed to enable Kentucky's students to reach proficiency by 2014. Although the approaches as well as the amount of funding needed vary from study to study, three different evaluations during the past year – one commissioned by the Kentucky Board of Education, one undertaken by Governor Patton's administration and one performed for the Council on Better Education – all reach the same conclusion. A variety of powerful education strategies will be needed to meet the 2014 goal. Various strategies recommended include expanded preschool services, enhanced professional development, more spending for technology, an extended school year, higher teacher compensation, and all-day kindergarten. Funding necessary to implement the various strategies ranges from $420 million over a biennium to $892 million on an annual basis.

KENTUCKY CENTER FOR SCHOOL SAFETY
KCSS
For our children, for our future

IMPROVING EDUCATION PRODUCT

2.4 School Safety Initiative

I. ***CHALLENGE:*** To assure that Kentucky's children are educated in an environment free from the threat of violence, to provide information to schools and school districts on the best practices in stopping school violence, and to provide alternative settings for youth who display extremely disruptive tendencies.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has for many years advocated reducing the impact that negative behavior by youth have on our society. He believes that violent youth should be held accountable for their actions, but that accountability must be tempered with a view toward rehabilitation. Many high profile school shootings and other public safety issues have helped to shape our views in this arena. The Governor feels strongly that Kentucky has and will continue to advocate for proactive prevention and intervention strategies that can greatly reduce incidents of school violence and empower youth to reach their full potential. This proactive stance will also provide a safe working environment for our teachers and administrators. In particular, the Governor believes that Kentucky should provide additional resources to our elementary and secondary schools for safety measures. He continues to advocate for evidence-based prevention strategies, standards-based alternative programs with rigorous entrance and exit criteria, job-embedded and meaningful professional development for school personnel, day treatment of troubled students, and the hiring of school resource officers if necessary.

III. ***PROCESS AND APPROACH:*** Governor Patton has continued to work closely with many agencies and advocacy groups toward the goal of a safe and civil school environment. The Kentucky Center for School Safety (CSS), located at Eastern Kentucky University was created in 1998 and continues to provide funding and technical assistance to local school districts, through its partners; the Kentucky School Boards Association, the University of Kentucky, and Murray State University. The Center works collaboratively with the Kentucky Department of Education (KDE) on several initiatives highlighted by the School Safety Data Report. Schools are required to report annually on the safety issues in their schools. These data are reported to

KDE and then sent to CSS for strategic planning and generating a statewide report on the safety status of Kentucky schools. Approximately 82 percent of the Safe Schools funding is utilized for alternative education – KDE collaborated with CSS in devising a standards based approach to alternative education which emphasizes the critical elements that should exist in such an educational setting.

Governor Patton remains an avid supporter of House Bill 330 – enacted in 1998 which has proven to be one of the more progressive pieces of School Safety legislation in the country. To date, the implementation of House Bill 330 has helped Kentucky become recognized as one of the national leaders in promoting the balance between school safety and academic achievement. The following are some of the highlights of Kentucky's efforts:

- A comprehensive professional development effort that has allowed all Kentucky public schools to train staff in key areas of school safety. Examples of these efforts are school-wide behavior management plans, anti-bullying strategies, substance abuse prevention, community service programs, and developmentally appropriate intervention services directed at those students who are at risk of school failure and violent behavior.

- A newly formed School Safety Assessment program is showing great promise and is being widely accepted by local school communities. This initiative is directed by CSS and provides local schools with a comprehensive assessment of their strengths and weaknesses with regard to school safety issues. This non-threatening approach has provided the needed catalyst for local school communities to reexamine and enhance their safety efforts.

- Multiple agencies continue to work with schools relative to their readiness to respond in an emergent situation. These efforts have continued to build upon the School Centered Emergency Management Guide spearheaded by KDE and CSS. This continues to be a multi-agency effort that allows for a school specific all hazards approach to planning. This planning process is predicated upon a readiness, response, and recovery model.

- The Department of Education, along with CSS, continues to work collaboratively with the Department of Military Affairs (Homeland Security, along with Disaster and Emergency Management) to ensure that our schools are vigilant in their watch and prepared for any type of emergency situation. These efforts are complimented by work with state and federal law enforcement agencies, first responders, and local health departments.

- CSS continues to support the Safe Schools Associates (SSA) Program. The SSA program provides alternative education program staff with feedback and technical assistance to augment the human resources already present in the district. The goal of the Associates is to serve the Commonwealth by assisting districts in strengthening alternative education programs to meet the varied needs of their students.

IV. ***LEADERSHIP AND CONTACT PERSONS: Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611); ***Gene Wilhoit, Commissioner of Education, Department of Education*** (ph. 564-3141); ***Jon Akers, Executive Director of the Center for School Safety*** (ph. toll free 877-805-4277).

V. ***GOALS AND TIMEFRAME:*** The Governor has remained committed to providing ongoing funding for Kentucky's school safety efforts.

IMPROVING EDUCATION PRODUCT

2.5 Guaranteed COLA for Teachers

I. ***CHALLENGE:*** To assure that the teaching profession attracts and retains quality people who have the capacity and commitment to build a world class elementary and secondary school system.

During the 13 years since enactment of the Kentucky Education Reform Act (KERA), average teacher salaries in Kentucky have improved from 83.8 percent of the national average in 1990 to an estimated 85.1 percent in 1993, moving from 37th place nationally to 32nd. However, most of the improvement occurred between 1990 and 1992, when Kentucky's average teacher salary reached 90.7 percent of the national average, with a 27th place ranking. Since then, the state's average teacher salary has steadily lost ground relative to the national average. Only in the past two years has the average Kentucky salary's relative standing improved again and only then due to the fact that many other states faced revenue and budget situations more serious than Kentucky's.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton, concerned that some teachers may not be adequately compensated as the cost-of-living continues to climb, has fought for assurances that Kentucky's elementary and secondary teachers will receive at least an annual cost-of-living adjustment (COLA). Teaching is the only major profession where the person knows when making a career decision that in all probability they will be working for the government for their entire career. Governments by their very nature can be too inflexible to meet the needs of employees. Teaching is also the only profession where a young person making a career decision is already intimately familiar with the profession. Teachers that feel they are being treated unfairly can become a deterrent to young people considering teaching. A person committing himself or herself to this profession should feel that they will receive more real compensation as they advance in professional ability. A cost-of-living adjustment is not a raise but only a maintenance of purchasing power. Persons committing themselves to a career should, as a minimum, be assured that they will not have their purchasing power reduced. When a person commits himself or herself to the teaching profession they probably do it with teaching in Kentucky in mind and make this career judgment based on current conditions in the state. But after taking a position with a particular school district, they are then at the mercy of the school board for future compensation. So long as COLA decisions for teachers are made at the local school board level, there will always be the potential for inequities in pay for teachers. This is detrimental to our goal of attracting and retaining quality people into the profession. This minimum guarantee by the state will solve a very difficult situation that traditionally arises in several districts each year.

III. ***PROCESS AND APPROACH:*** Governor Patton fought for and helped win passage of House Bill 469 in the 1998 Regular Session of the General Assembly. This bill provides in statute that the Kentucky Department of Education shall not approve a salary schedule or budget for a local school district unless the budget contains a COLA which is at least the lesser of: 1) the increase in the average Consumer Price index, or 2) the percentage increase in base funding to the state's SEEK formula, which is the normal state appropriation to local districts to support KERA. The Governor's fiscal year 2002-03 Spending Plan provided a 2.7 percent increase in the basic SEEK formula for 2003, and also provided additional funding to guarantee a COLA increase – 2.9 percent in fiscal 2002-03 and 3 percent in fiscal 2003-04 – to retired teachers. The 2002-2004 Biennial Budget supported those increases and requires salary increases of $1,080 for certified staff and 2.7 percent increases for classified staff in 2004.

IV. ***LEADERSHIP AND CONTACT PERSONS: Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611); ***Gene Wilhoit, Commissioner of Education, Department of Education*** (ph. 564-3141).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to making certain that the guarantee contained in House Bill 469 remains law, and is not suspended in any subsequent budget bill. He included the COLA amount for teachers in his 2002 biennial budget, and recommended budget for fiscal years 2002-03 and 2003-04.

The enacted budget for the 2000-2002 biennium mandated a minimum salary increase of 2.2 percent in both fiscal year 2000-01 and fiscal year 2001-02 for all certified local school district employees. The biennial budget also included additional funding to enable a 2.3 percent COLA in fiscal year 2000-01 and an additional 2.5 percent COLA in fiscal year 2001-02 for retired teachers.

IMPROVING EDUCATION PRODUCT

2.6 Kentucky Educational Excellence Scholarships

I. ***CHALLENGE:*** To increase enrollment in Kentucky institutions of higher education in an era of escalating tuition costs by increasing state assistance for students who demonstrate a commitment to excellence.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton knows that education is the key to raising Kentucky's standard of living. Additionally, he believes that access to postsecondary education is critical for Kentucky citizens in a rapidly changing economy. With the cost of postsecondary education rising rapidly, the Governor believes there is a role for Kentucky State Government to defray some of the costs of a college education. Such a program should be based on merit, and therefore encourage Kentucky's young people to do better in high school because it would directly increase their college assistance.

The Governor advocated this approach subject to three important principles. First, he believed that the new scholarship program should be funded from proceeds from the Kentucky Lottery, fulfilling the original promise of lottery proponents to use the proceeds for education. Second, he objected to creating a new scholarship program without first having fully funded the existing need-based tuition assistance programs already in place, which had long been under-funded. Third, he wanted to avoid displacing federal programs and federal funds with the new scholarship program.

III. ***PROCESS AND APPROACH:*** Working with State Senate Democrats, Governor Patton developed the initial draft of Senate Bill 21 in 1998 and fought for its passage. Incorporating several compromises, the billed passed by wide margins in both chambers and was signed by the Governor in April 1998.

KRS 164.7877, enacted as Senate Bill 21, established a merit scholarship award; called Kentucky Educational Excellence Scholarships (KEES), for use by public and private high school students who maintain at least a 2.5 grade point average (GPA). The scholarship is intended for use at Kentucky institutions of postsecondary education by Kentucky residents. The system includes a sliding scale whereby a high school student earns an annual award based on his or her high school grades. Awards range from $125 for a 2.5 GPA to $500 per year for a 4.0 GPA. In addition, a student is eligible for a supplemental award based on American College Test (ACT) or Scholastic Achievement Test (SAT) equivalent scores. Supplemental awards range from $36 for a score of 15 to $500 for a score of 28 or higher. In general, a high school student may earn up to $2,500 per year in KEES scholarship to be disbursed over eight college terms within five years of high school graduation (for a maximum award of $10,000). The KEES program also encourages recipients to attend college full-time and to maintain a solid academic performance record by requiring a minimum GPA of 2.5 for their first year and a minimum 3.0 GPA thereafter to retain eligibility for the full scholarship award. Scholarship awards are proportionately reduced for less than full-time attendance and no awards are made for less than half-time course loads. Also, after the first year, recipients' awards are reduced by 50 percent for the duration of any period of time when their cumulative GPA falls within the range of 2.5 to less than 3.0. No awards are made after the first year during any period when a student's cumulative GPA falls below 2.5.

Disbursement of KEES awards occurs automatically upon an eligible student's enrollment and registration in college, with no need to file a separate application. No KEES award either displaces or reduces any need-based grant for which a student is otherwise eligible.

- Forty-three thousand and six hundred and sixty students received $38 million in KEES scholarships in 2001-2002.
- KEES will grow by 12 percent in 2002-03 to about 56,000 students.
- At full implementation in fiscal year 2004-05, 45 percent of lottery receipts will be dedicated to funding KEES.
- As of April 2003 over $120.6 million has been disbursed to KEES recipients to enable them to continue in college.

IV. ***LEADERSHIP AND CONTACT PERSONS: Joe L. McCormick, Executive Director, Kentucky Higher Education Assistance Authority*** (ph. 696-7499).

V. ***GOALS AND TIMEFRAME:*** Entering college students were eligible for the first partial scholarships beginning in the Fall of 1999. The first class of college freshmen to receive the full benefit of the scholarships was freshmen that entered high school in the Fall of 1998. Significantly increased and dedicated funding for all need-based programs is also in place. The Governor's commitment to higher education is an ongoing one and is perhaps the most recognizable hallmark of his administration to date.

KHEAA has developed an administrative system for receiving grades and test scores from the Kentucky Department of Education, and now notifies students and families by mail of the scholarship awards they are set to receive. This notification process also extends to those entering their freshman year of high school in an effort to remind students of the importance of achieving good grades. A secondary goal of the KEES scholarships is to help ensure that Kentucky's best and brightest remain in the state. This investment in Kentucky's youth will help to ensure they build meaningful lives and the Commonwealth reaches its full potential.

IMPROVING EDUCATION PRODUCT

2.7 Adult Education and Literacy

I. ***CHALLENGE:*** To create an adult education and literacy system that is accessible to all Kentuckians. To increase the number of adults enrolling in basic skills education, ultimately raising the literacy levels and increasing the number of adults enrolling in postsecondary education.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor is keenly aware of the importance of adult education and life-long learning. Nationally, more than 90 million adults function at low levels of literacy. Although Kentucky ranks first in the percentage increase in high school completions according to the 2000 census, too many adults—one in four over the age of 25—do not have a high school credential. There is a strong relationship between Kentucky's low educational attainment and the Commonwealth's comparatively low per capita income. About 82 percent of the difference between Kentucky's per capita income and the average of other states' per capita income is due to educational deficiencies. Governor Patton's goal to "Set Kentucky on the path to achieving economic opportunity and a standard of living above the national average by 2020" can only be met if the educational attainment level of Kentucky adults is improved.

III. ***PROCESS AND APPROACH:*** In 1998 the Governor announced the formation of a groundbreaking task force to analyze Kentucky's adult education system. Governor Patton served as chairman of the Task Force on Adult Education and Literacy, which carried out a thorough and full review of the adult education system in the Commonwealth. The Task Force developed recommendations and an implementation plan for raising the literacy levels and educational attainment of Kentucky adults. The Task Force was comprised of members of the General Assembly and others appointed by the Governor representing business, education, and government.

The Task Force Report provided the basis for recommendations that became Senate Bill 1, The Adult Education Act of 2000. The legislation directed the Council on Postsecondary Education, in partnership with the Workforce Development Cabinet, Department for Adult Education and Literacy, to develop a vision and a 20-year strategy to raise the knowledge and skills of the state's adult population. The bill also called for the efficient and effective coordination of education and training resources, creating a public communication campaign, establishing the statewide initiative fund including financial incentives; and conducting research to develop standards for professional development and support for adult educators. The Department for Adult Education and Literacy was given the charge to carry out the statewide mission, implement the strategic plan and provide administration of the county grant program.

A galvanized effort by many partners representing government, business, education, and volunteer organizations met several times over a 12-month period to create the vision and strategic plan for adult education. The Council on Postsecondary Education approved the plan, centered around five critical questions, in November 2000.

1. Are more Kentuckians participating in adult education programs?

    - Increase the number of Kentuckians enrolled in adult education from 50,000 to 300,000.

    - Carry out a statewide public communication campaign built upon "Education Pays."

    - Establish model adult education programs that are replicable in other localities or serve as statewide delivery systems.

    - Train adult education instructors so that increasing numbers of adult learners may be better served.

    - Create a statewide information and distance learning system – www.kyvae.org – for both instructors and students.

    - Fund family literacy programs in every county.

2. Are more adult learners meeting their educational goals?

    - Increase the percentage of adult learners enrolled in each level of adult education programming who complete that level.

    - Increase the percentage of adult learners with a high school completion goal who earn a high school diploma or recognized equivalent.

    - Establish a statewide funding and accountability system that emphasizes learner performance and goal achievement.

    - Provide tuition discounts to full-time employees who complete a high school equivalency diploma program within one year.

- Offer tax credits to businesses that assist their full-time employees with obtaining a GED.

3. Are more adult learners advancing on to postsecondary education?

   - Work with Kentucky's public and independent postsecondary institutions to increase the college-going rate of adult students.

   - Target GED completers in the statewide public communications campaign.

   - Set goals and track the percentage of GED completers going on to postsecondary education.

4. Are more adult learners prepared for the changing workplace?

   - Stimulate partnerships among local, regional, and state agencies through the economic development and workforce training "Workforce Alliance" program.

   - Increase the number of adult learners who gain or upgrade job skills using the statewide competency-based Manufacturing Skills Certification or the Kentucky Employability Skills Certificate.

5. Are Kentucky's communities and economy benefiting?

   - Provide funding for communities to create a comprehensive local needs assessment and strategic plan.

   - The "Go Higher KY, Education Pays!" community initiative unites local educators, business, labor, government, libraries, and civic groups to raise the educational attainment levels in communities. Ten communities participated in 2001-02, and five communities were added in 2002-03. Each community is encouraged to form a local P-16 council. For 2003-04, the Adult Education and Literacy Fund will provide $20,000 to five additional communities to perform education needs assessments focusing on adults with limited literacy and workplace skills.

Only three years old, the adult education strategic agenda has produced significant results.

- Enrollment in adult education programs increased by more than 35,000 students, from 51,177 in fiscal year 1999-2000 to 86,413 in fiscal year 2001-02. The goal is 100,000 students by fiscal year 2003-04.

- The “GO GED” campaign motivated more people than ever to take the GED test. An all-time high of 21,287 people took the test in fiscal year 2001-02, compared to 16,947 in 1999-2000, a 25.6 percent increase. Even better, 14,651 people passed the GED test in fiscal year 2001-02, compared to 12,553 in fiscal year 1999-2000, a 16.7 percent increase.

- According to the U.S. Census, the percentage of adults in Kentucky age 25 or older without a high school diploma or GED decreased from 35.4 percent in fiscal year 1989-90 to 25.9 percent in fiscal year 1999-2000.

- The percentage of GED graduates entering postsecondary education is also improving. Of the fiscal year 1998-99 GED graduates, 17 percent enrolled in postsecondary education within two years, a 5 percent increase over the fiscal year 1997-98 graduates. For fiscal year 1999-2000, 18 percent enrolled in postsecondary education.

- More than 22,000 employees, from almost 600 participating Kentucky employers, enrolled in workforce programs in 2002. The new employer tax credit program is slowly gaining popularity. Two “Skill Mobiles,” complete with ten-station computer labs with wireless Internet service, take learning to the people, no matter where they live.

- The adult education website www.kyvae.org through the www.kyvl.org is a “hit.” More than 2,000 instructors and students use the site on a regular basis to access information and to learn.

- Parents at low levels of literacy and their children can now participate in family literacy programs in every Kentucky county. Only one other state in the nation supports family literacy to this degree. It is expected that 5,000 families will be enrolled each year by fiscal year 2003-04.

- A new base-funding model was implemented in fiscal year 1999-2000 that equalizes funding among counties based on the number of people at low levels of literacy.

- County programs are eligible for monetary rewards if enrollment and performance goals are met or exceeded. In fiscal year 2000-01 86 counties shared nearly $750,000 in reward funds. In fiscal year 2001-02 71 counties shared almost $800,000 in reward funds.

In addition to the programmatic changes in the Adult Education Act, the Governor provided an initial increase in funding of $7 million for fiscal year 2000-01 which he then raised to an annual increase of $12 million for fiscal years 2001-02 through 2003-04. Due to revenue shortfalls, the appropriation for the DAEL has been reduced by $870,400 since 2001. The fiscal year 2003-04 adult education appropriation to the Council on Postsecondary Education was also reduced by $750,000 or 6.25 percent. Kentucky has also seen a reduction in federal funds through the Workforce Investment Act, Title II, Adult Education and Family Literacy Act resulting in a net loss of nearly $1 million to the Commonwealth. These factors have necessitated a reduction in county base funding for fiscal year 2003-04 of 5.92 percent.

To ensure that the work of the Workforce Development Cabinet and the Council on Postsecondary Education would continue along a successful and improving path, the Governor appointed Dr. Cheryl King as Commissioner of Adult Education and Literacy, to serve as a joint appointment in both agencies. To continue the adult education program's momentum and reach the next level of achievement, the Department for Adult Education and Literacy was abolished in 2003 with all functions transferred to the Council on Postsecondary Education.

IV. ***LEADERSHIP AND CONTACT PERSONS:* *Ed Ford, Secretary of the Governor's Executive Cabinet*** (564-2611); ***Dr. Cheryl King, Council on Postsecondary Education*** (573-1555).

V. ***GOALS AND TIMEFRAME:*** The Governor's support for adult education is ongoing and is a key component of the "Education Pays!" campaign. The Governor recognizes that the knowledge-based economy requires, at a minimum, a K-14 educational experience for all Kentuckians and is committed to achieving this goal and positioning Kentucky to be a successful player in the economies of the future. The mission of adult education in Kentucky is to provide leadership and support for an education system that enables adult Kentuckians to acquire essential skills that promote economic vitality and improve the quality of life. The goals are reflected in the performance measures which include: demonstrated improvements in literacy skill levels in reading, writing, and speaking the English language; numeracy; problem solving; English language acquisition; placement in, retention in, or completion of, postsecondary education, training; unsubsidized employment, or career advancement; and receipt of a secondary school diploma or its recognized equivalent.

IMPROVING EDUCATION PRODUCT

2.8 "Go Higher KY, Education Pays!" Campaign

I. ***CHALLENGE:*** To raise the education level of all Kentuckians from pre-school through college, to encourage more individuals to take advantage of adult and postsecondary education opportunities that prepare them for the new economy, to lower Kentucky's high school dropout rate, and to ensure all Kentuckians are aware of the cultural and economic benefits of investing in education.

II. ***GOVERNOR PATTON'S POSITION:*** While Kentucky has made dramatic strides in improving K-12 and postsecondary education, too few of our undereducated adults are taking advantage of the educational opportunities available to them. Although education is more accessible and affordable than ever, there is a need to raise awareness of the role education plays in improving the quality of life in Kentucky.

III. ***PROCESS AND APPROACH:*** Governor Patton is spreading the word that "Education Pays!" for the citizens of the Commonwealth. The now familiar "Education Pays!" logo was placed on official stationery, bumper stickers, newsletters, and airport and road signs welcoming visitors to Kentucky. From 2001 to 2003, the Council on Postsecondary Education received $4.5 million to extend the "Education Pays!" campaign to include television, radio, and print media, as well as grassroots community initiatives, to encourage Kentuckians to take the next step to advance their education. The "Go Higher KY, Education Pays!" campaign enabled the state to achieve record increases in adult and postsecondary enrollment and GED attainment while increasing local communities' capacity for education advocacy and reform. A "Go Higher KY, Education Pays!" web portal, currently under development, will provide convenient, online resources that help learners at every stage and every age find an educational program that's right for them.

IV. LEADERSHIP AND CONTACT PERSONS: Dr. Jim Applegate, Council on Postsecondary Education (ph. 573-1555); ***Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to a long-term effort to raise the quality of life and economic vitality of Kentucky. Increased participation in education programs is essential to achieving this goal. Statewide media will air July-September 2003. The "Go Higher KY, Education Pays!" web portal, sponsored by the Kentucky Higher Education Assistance Authority, will launch in late Spring of 2004 at www.gohigherky.org.

IMPROVING EDUCATION PRODUCT

2.9 Family Literacy

I. ***CHALLENGE:*** To assure a coordinated delivery system of high quality family literacy services to state and local agencies and service providers, thereby increasing the effectiveness of family literacy as a means of reaching both adults and at-risk youth.

II. ***GOVERNOR PATTON'S POSITION:*** More than ever before in Kentucky's educational history, there is urgent need for maximum adult and child literacy attainment. The economic and policy landscapes dictate increased skills in the workforce, which, in turn, dictates increased literacy attainment levels. Consequently, initiatives designed to increase comprehensive literacy levels attract significant national interest, recognition, and support. There are numerous initiatives, at both the state and federal levels, to support the literacy needs of the underserved. This new focus and attention within the Commonwealth of Kentucky includes early childhood programs, adult education, and a variety of family literacy services.

Family literacy efforts in Kentucky receive two streams of direct funding: the state funded Adult Education and Family Literacy funds that fund a family literacy program in each county and the federally funded Even Start program. In addition, indirect, categorical and often isolated funding sources support a variety of components of family literacy services. Examples of federally supported components include: the Adult Education and Family Literacy Act, Title I programs, Head Start, and the Reading Excellence Act. State funded sources also include Family and Youth Resource Services Centers (FYRSCs) and the early childhood initiatives. Family literacy is a theme that can unify these programs and create an integrated approach to serving the needs of Kentucky's families.

III. ***PROCESS AND APPROACH:*** Governor Patton announced the establishment of the Kentucky Institute for Family Literacy in August 2000. The Kentucky Institute for Family Literacy is a unique partnership of public, private, and nonprofit resources designed to develop and support high-quality family literacy services for people throughout the Commonwealth. The Kentucky Institute for Family Literacy coordinates resources that assist parents in obtaining the literacy skills needed to help their children and family move toward self-sufficiency. The Kentucky Institute for Family Literacy is housed in the National Center for Family Literacy in Louisville. Since its inception, the Kentucky Institute for Family Literacy has worked with its cross-agency partners to facilitate the following accomplishments:

- Expansion of family literacy into all 120 Kentucky counties;
- Increase in families served from 1,300 to 3,500;
- Professional development with cumulative attendance of 1,500;
- Technical assistance to new DAEL programs—165 site visits in two years;
- Creation of a 2,500-volume Family Literacy Resource Center;
- Development and revision of Family Literacy Performance Indicators; and
- Development of resources for programs and parents such as "Kentucky Author" and "Poetry" Family Literacy backpacks for all Kentucky programs.

IV. ***LEADERSHIP AND CONTACT PERSONS**: **Kim Townley, Ph.D., Acting Director, Division of Early Childhood Development, Department of Education*** (ph. 564-8341), ***Cindy Read, Director, Kentucky Institute for Family Literacy*** (ph. 502-584-1133 ext. 184).

V. ***GOALS AND TIMEFRAME**:* The Governor is committed to a coordinated, collaborative effort over time that leverages state, federal, and private dollars to improve literacy levels in Kentucky families.

IMPROVING EDUCATION PRODUCT

2.10 Teacher Training and Professional Development

I. ***CHALLENGE:*** By the 2005-2006 school year to have a quality teacher in every Kentucky elementary and secondary classroom teaching in a field in which they are certified or have demonstrated competency.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton believes that the classroom teacher is the most important link to student learning. If we are to prepare our high school graduates for education at the postsecondary level and the workforce, and for a lifelong learning experience, they must have a quality basic education delivered by quality teachers instructing in their area of expertise.

III. ***PROCESS AND APPROACH:*** Governor Patton's plan to provide our students with a basic education as a foundation for lifelong learning will require a cadre of quality teachers in our elementary and secondary schools. In 1998, a Teacher Quality Task Force comprised of six members of the House of Representatives, six members of the Senate, and six members appointed by the Governor, was created to review programs for teacher training and professional development.

The Task Force met during the 1998-2000 interim and focused its attention on the following: recruitment and retention of a talented, diverse teaching force; rigorous preparation in subject matter and teaching methodologies; intensive field experiences; acceptable teacher preparation programs; quality professional development; and, attractive compensation, benefits, and working conditions for teachers. As a result of the task force's efforts, a bill was drafted and introduced to the 2000 Regular Session of the General Assembly. Most of the task force's recommendations were incorporated into Senate Bill 77, which passed and was signed by the Governor. One of the major provisions of this bill is additional compensation of $2,000 annually to those teachers who earn National Board for Professional Teaching Standards Certification. House Bill 402, enacted during the 2002 legislative session, established a fund that provides grants to at least five school districts to develop differentiated compensation programs that provide additional compensation above a single salary schedule for the purpose of enhancing the goals of the original task force.

This effort has also led to increased responsibilities for the Education Professional Standards Board (EPSB), which became a separate governing unit attached to the Office of the Governor in 2000. The Governor expects all teachers to meet high standards for certification and to demonstrate a competency in the subjects they are teaching, in teaching methodology, and in technology before licensure. The Federal No Child Left Behind Act mandates that by 2005-2006 all children will be taught by highly qualified teachers. The EPSB has developed innovative alternative routes for certification to attract mid-career and other competent candidates.

IV. ***LEADERSHIP AND CONTACT PERSON: Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611); ***Susan Leib, Executive Director, Education Professional Standards Board*** (ph. 573-4606).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to education is on-going and he seeks a competent certified teacher in every classroom by 2005-2006. Kentucky received high grades for improving teacher quality in Education Week's January 2003 "Quality Counts," the magazine's annual analysis of state P-12 education programs. The infrastructures supporting teacher preparation, the quality of teacher education and professional development, and the recruitment and retention of highly qualified and minority teachers are issues that will remain in the forefront for the near future as vitally important to the success of education in the Commonwealth.

IMPROVING EDUCATION PRODUCT

2.11 Lowering the High School Dropout Rate

I. ***CHALLENGE:*** To lower Kentucky's high school dropout rate and prepare Kentucky high school students for the challenges of the new economy by ensuring that they obtain the basic education necessary to be productive future citizens.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor recognizes that the economy of the future will require highly-skilled adaptable workers who must have the educational background necessary to adapt to a dynamic and fast paced economy. Those who do not attain the very basic and necessary skills, education and training, risk getting left behind in the new economy. Although it may not be attainable, the Governor has stated that a dropout rate of zero in this state should be the goal of our educational system.

III. **PRO*CESS AND APPROACH:*** Governor Patton supported a dropout prevention bill (House Bill 77) sponsored by Speaker Jody Richards in the 2000 Regular Session of the General Assembly. The bill establishes several goals to be achieved by the year 2006, including: the statewide annual average dropout rate is to be reduced by 50 percent from the 2000 base year; no school shall have an annual dropout rate that exceeds 5 percent; and each county shall aspire to have 30 percent fewer adults between the ages of 16 and 24 without a high school diploma or GED than the county had in 2000. The annual average dropout rate for students in grades 9–12 was 5.1 percent in 1999-2000, and was reduced to 4.79 percent in 2000-01, and to 3.9 percent in 2001-02. The bill also directs the Department of Education to establish and implement a comprehensive statewide strategy to provide assistance to local districts and schools in addressing the dropout problem. The department developed a statewide strategy in a comprehensive plan, Persistence to Graduation, which was reviewed in December 2000 by the Kentucky Board of Education. Available funds for competitive dropout prevention grants were given to 23 districts in fiscal year 2001-02. The dropout prevention grant proposal was changed for fiscal year 2003-04, requiring a more targeted, intensive approach. Twenty-four districts received grants for fiscal year 2002-03 that required they target the most at-risk students. This change came from an analysis of the evaluation of the 2002 programs. The analysis indicated that progress could be heightened by targeting specific students, as opposed to a more global school wide strategy. Early indictors are showing this to be the case, with the most gains being noticed at the elementary and middle school levels. There are a variety of strategies available to assist districts, including, but not limited to, extended school services, after school programs, early learning centers, Family Resource and Youth Services Centers, alternative education services, the Jobs for Kentucky's Graduates program, the High Schools that Work program, and school safety grants. During the next two school years, the bill further directs the Department of Education to provide intensive, regional training for school personnel to address students at risk of failure and most likely to drop out of school. The training is to include ways for early identification of at-risk students in elementary schools, as well as potential dropouts in middle and high schools. Dropout prevention continues to be a multi-faceted strategy that relies upon the reduction of risk factors associated with academic failure and conflicts (the number one and two reasons reported as to why students left school) and increasing resilient behaviors associated with successful school careers. These strategies rely upon the partnership with other entities, such as the Kentucky Center for School Safety. As part of the Department of Education's strategic plan for dropout prevention, professional development, and intensive technical assistance has been provided in the following areas: truancy reduction, community service opportunities, alternatives to suspension and expulsion, standards based alternative education, social skill development, and improved school culture/climate through a thorough safe schools assessment process. The legislation also requires that the local school district contact each student between the ages of 16 and 18 that drops out of school within three months of withdrawal and encourage the student to re-enroll in a regular program, alternative program or GED preparation program.

IV. ***LEADERSHIP AND CONTACT PERSONS:* *Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611); ***Gene Wilhoit, Commissioner of Education, Department of Education*** (ph. 564-3141).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to a long-term effort to lower the dropout rate in all Kentucky schools. Overall progress has been steady and the drop-out rate continues to decline. The 2002 non-academic data revealed that the state's school attendance rate increased by more than one-quarter of a point over the previous school year, and the percentage of students making a successful transition to adult life also increased by more than one-half of a point during the same time period. Progress in these areas is important to the Governor's goal of raising the standard of living for all Kentuckians to the national average by 2020.

IMPROVING EDUCATION PRODUCT

2.12 Family Resource and Youth Services Centers

I. ***CHALLENGE:*** To enhance student academic success by removing barriers to learning through coordination of resources and the creation of partnerships with school, family, and community.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton is addressing the effects of poverty on children and youth. Because of the factors outside the classroom that negatively affect their lives, these children come to school ill-prepared to learn, often becoming potential dropouts. The primary point of entry for addressing these issues for many children and families is through Kentucky's Family Resource and Youth Services Centers (FRYSCs), located in schools across the Commonwealth that measure 20 percent or more free or reduced lunch eligibility. Governor Patton has consistently worked to secure funding for the remaining eligible schools in order to make centers available to children and youth across the Commonwealth.

III. ***PROCESS AND APPROACH:*** During the 2000 Regular Session of the General Assembly, Governor Patton's leadership paved the way for the most successful legislative session – culminating in the passage of House Bill 640 – for FRYSCs since the passage of KERA in 1990. Joining the Governor in his successful efforts were the members of the General Assembly, the Cabinet for Families and Children, the Kentucky Department of Education, and numerous other groups and individuals concerned with school readiness, student achievement, and parent involvement in schools.

- **Legislative Initiatives –** The enacted appropriations act included funding in the amount of $47.7 million in fiscal year 2000-01 and $51.8 million in fiscal year 2001-02 – sufficient funding for 47 new centers each year of the biennium and the continuation of 655 existing centers. This additional funding moved Kentucky toward being the first state to achieve full funding of school-based family support programs.

- **House Bill 640 –** Addition of "reduced" lunch numbers to eligibility criteria for center funding: prior to the 2000 Regular Session of the General Assembly, school eligibility for a FRYSC was based on its free lunch count (a minimum of 20 percent or more), highlighting a paradox created by the success of welfare reform as families transition from welfare to work. This trend emphasizes that even stronger support systems must be in place as families make this difficult transition. Welfare reform results in a reduction of the number of students eligible for free lunches, which threatens continuation funding for existing centers while increasing the number eligible for reduced lunches. Therefore, House Bill 640 established eligibility based on free and reduced price lunches.

- **Increase in Funding Formula for Existing Centers –** House Bill 640 also increases the per/pupil-funding amount, from $200 to $205 in fiscal year 2000-01 and $210 in fiscal year 2001-02. For many centers, this increase made the difference in their ability to retain needed outreach staff and prevent reduction in programs and activities. The Governor's 2003 Spending Plan and the enacted fiscal years 2002-03 and 2003-04 budget maintains this funding level.

- **Salary Adjustments for Center Coordinators**

    - Governor Patton strongly supports salary equity, particularly for those who are committed to improving the lives of our children. The final piece of House Bill 640 requires that School Districts give FRYSC Coordinators who are "classified" employees the same salary increase as other employees in the same classification.

    - Governor Patton's 2003 Spending Plan includes funding for fiscal year 2002-03 at the same level as that of the fiscal year 2001-02 budgetary allocation. In the face of difficult fiscal challenges created by lower tax revenues, Governor Patton demonstrated his commitment to our youngest citizens and their families by maintaining the FRYSCs budget allocation at $51.8 million for fiscal year 2002-03. This will allow the 774 centers serving 1,143 schools. House Bill 269 in the 2003 Regular Session of the General Assembly followed the lead of Governor Patton's spending plan and continued the current level of funding for this initiative for both fiscal years 2002-03 and 2003-04. Based on the upcoming Kentucky Department of Education's free and reduced lunch count in October of 2002, it is estimated that 32 additional schools are eligible for centers when additional funds become available.

IV. ***LEADERSHIP AND CONTACT PERSON: Robert D. Goodlett, Ed.D, Executive Director, Office of Family Resource and Youth Services Centers*** (ph. 564-4986).

V. ***GOALS AND TIMEFRAME:*** Governor Patton is committed to fulfilling the mandate of the Kentucky Education Reform Act through his dedicated support of the goal that "*all children can learn and at high levels.*" As a strong advocate for giving Kentucky's most vulnerable students the additional support they need to achieve this goal, the Governor is committed to completing the funding of FRYSCs in every remaining eligible school in the Commonwealth.

IMPROVING EDUCATION PRODUCT

2.13 Secondary Vocational Education Reform

I. ***CHALLENGE:*** To invest in a statewide technical education system that encourages secondary education students to transition into postsecondary education and/or the workforce and builds a working relationship with business and industry to promote economic growth for Kentucky.

II. ***GOVERNOR PATTON'S POSITION:*** In today's global economy, the Commonwealth's workers must compete for jobs not only with the best and brightest workers from other states, but with the best and brightest from all over the world. Traditional economic sectors are declining and are being replaced by high-tech manufacturing and service jobs. This shift of economic structure reinforces the need for a skilled workforce to increase Kentucky's position in a world economy. The best way to compete in the global marketplace is to ensure that our workforce is among the most highly educated and best trained in the world. In the constantly changing face of the marketplace with new products and services changing almost daily – everyone is forced to continually learn new skills. Those who cannot learn new skills will be left behind in jobs that will change or disappear altogether; thus Kentucky will find itself left behind with uncompetitive products and ill-prepared workers.

III. ***PROCESS AND APPROACH:*** The passage of the Kentucky Postsecondary Education Improvement Act of 1997 has allowed Kentucky to better align its technical education system to meet the state's economic needs. Secondary Career and Technical Education in Kentucky is a viable and successful system. The three major governing entities of secondary education are: the Workforce Development Cabinet's Department of Technical Education (DTE), the Kentucky Department of Education (KDE), and the Kentucky Community and Technical College System (KCTCS). DTE's primary focus is on workforce preparation with links to continuing education at the postsecondary level in 53 area technology centers. KDE administers 26 individual technical education schools through local school districts which offer a wide exploratory and preparatory curriculum to public school students. KCTCS provides accessible and affordable education and training through academic and technical associate degrees; diploma and certificate programs in occupational fields; pre-baccalaureate education; adult, continuing and development education; customized training for business and industry; and distance learning at its 28 institutions.

In February 2002 Governor Patton introduced an education partnership that created a more seamless path to postsecondary education and training for Kentucky high school students, allowing them to get a head start on their college education. The partnership between the Workforce Development Cabinet's DTE and the KCTCS allows technical education students to simultaneously enroll in high school and community and technical colleges. It also simplifies course transfers from high school technical programs to KCTCS. This partnership includes all of the systems' major program areas – information technology, business technology, health careers, construction technology, automotive technology, and manufacturing technology.

Secondary students now have the opportunity to earn KCTCS credit while in high school, transfer that to any of the community and technical colleges providing them with a solid foundation of skills they need to be successful in today's and tomorrow's economy.

The partnership has far-reaching implications for Kentucky students by assisting students in moving from secondary through postsecondary education. More than 65 percent of Kentucky's job growth in the next five years will be in jobs requiring some or extensive postsecondary education and training. The Governor believes that technical education leads to good-paying careers in both traditional and new economies.

Business and industry involvement in vocational training is at an all time high in Kentucky. Kentucky's Manufacturing Skill Standards program provides critical information to current and future manufacturing employers, as well as employees and educators, about what skills and knowledge workers need in order to succeed in a job. In 1999, Governor Patton directed the Workforce Development Cabinet and the Department of Education to work on three objectives:

- Give more value to student work in high schools;
- Utilize standards to reflect high expectations; and
- Apply performance (skill) standards to occupations.

These entities partnered with the Economic Development Cabinet and KCTCS to facilitate the development of skill standards in Kentucky. The Economic Development Cabinet and the Kentucky Industrial Development Council jointly funded the Target Industry Analysis that was utilized to identify primary and secondary industries within the Commonwealth. As a result of the analysis, manufacturing was identified as the priority industry sector and became the basis for the establishment of a "Manufacturing Skill Standards

Task Force," comprised solely of employers. Since employers are experts at knowing what skills are needed, it was determined that employers would define manufacturing skill standards through the Kentucky Manufacturing Skill Standards Task Force (KMSSC). KMSSC was formed to continue the work of the Task Force. The KMSSC has become a statewide consortium comprised solely of employer representatives from local and regional manufacturing consortia throughout Kentucky. It draws its employer representatives from the Commonwealth's 29 local and regional manufacturing consortia. The on-going mission of the KMSSC is to ensure that manufacturing skill standards continue to facilitate the development of a highly skilled manufacturing workforce by combining the needs of employers with the Commonwealth's school systems to identify and award certificates to qualifying students. When recruiting employees, Kentucky employers recognize a certified candidate as someone who has the basic and/or advanced workplace skills necessary to perform a specific job.

The DTE, KDE, and KCTCS have completed the development and assessment phase of the manufacturing skills standards and have integrated them into existing curricula and targeted instructional programs. The Skills Standards Certification program will help to propel Kentucky to the next level by ensuing an increase in the quality of Kentucky's workforce for employers and by providing for a higher standard and quality of living for Kentuckians.

IV. ***LEADERSHIP AND CONTACT PERSONS: Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611); ***Willie Lile, Secretary of the Workforce Development Cabinet*** (ph. 564-6606).

V. ***GOALS AND TIMEFRAME:*** The Kentucky Legislature Subcommittee on Vocational Education is currently conducting a program review of Kentucky's vocational education system and this subject will most likely be addressed again in the next regular Session of the General Assembly in 2004.

Building Self-Sustaining Families

Building Self-Sustaining Families

- KIDS NOW Early Childhood Development Program
- Kentucky Family Transitional Assistance Program (Welfare Reform)
- Health Insurance for Kentucky's Children
- Women's Physical and Mental Health Initiative
- Governor's Office of Child Abuse and Domestic Violence Services
- Health Insurance Reform
- Reductions in Teen Smoking
- Improving Kentucky's Child Protection Services Network
- Affordable Housing Initiatives
- Minority Action Initiative
- Insurance Consumer Protection Initiatives
- Health Department Support
- Kentucky Agency for Substance Abuse Policy (KY-ASAP)
- Improving Services to Individuals with Mental Disabilities
- Medicaid Management Initiatives
- Delinquent Child Support Enforcement

BUILDING SELF-SUSTAINING FAMILIES

3.1 KIDS NOW Early Childhood Development Program

I. ***CHALLENGE:*** To assure a coordinated and intensive effort that focuses on the needs of Kentucky's youngest citizens (age birth to five) and their families. In order to ensure that each child reaches his or her full potential, it is critical that we support families and communities to improve the many environments in which young children spend time. This effort will result in children arriving at the schoolhouse door ready to learn at high levels.

II. ***GOVERNOR PATTON'S POSITION:*** The focus on the needs of the Commonwealth's youngest children represents the third in a series of progressive reforms that have been undertaken in Kentucky government. In 1990 the Kentucky General Assembly, through the Kentucky Education Reform Act (KERA), made the largest commitment to date to improving the way the Commonwealth educates children in elementary and secondary school. The second reform effort began as Governor Patton came into office and set as a first priority the reform and improvement of the Commonwealth's postsecondary education system. The third progressive reform movement in Kentucky, spearheaded by the Office of Early Childhood Development in the Governor's Office has developed and is helping to implement the most comprehensive program for children ages 0 to 5 that exists in this nation (known as "KIDS NOW").

Recent developments in brain research emphasize the extreme importance of parents, family, and community to ensuring that a child will develop to his or her fullest potential. The most startling finding of the new research is that the electrical activity of brain cells changes the physical structure of the brain, with 90 percent of architectural structure of the brain completed by the time a child is three years-of-age. A positive, stimulating, warm, responsive, environment filled with knowledgeable adults will foster complete brain development. Less than quality environments will have long-term negative effects on young children and the society as a whole. In other words, the brain is not a stabilized, fully-grown organ at birth, but instead, there is a great potential for growth and a resulting explosion of learning that can take place after a child is born.

For policy makers, the implications of these recent studies are profound. They mean that children whose needs are met within the earliest years have a significantly better chance of succeeding in school and leading productive, successful lives. It is Governor Patton's belief that the state of the art research on the growth and development of children must be translated in Kentucky to a plan encompassing prenatal and postnatal care, quality early care and education, parent education, well-designed preschool programs, and other innovations which will ensure that all Kentucky's children reach their fullest potential.

III. ***PROCESS AND APPROACH:*** After more than a year of study by a special task force the Governor created to address this subject, the Patton Administration introduced comprehensive legislation in the 2000 Regular Session of the General Assembly. On April 4, 2000, Governor Patton signed historic early childhood legislation into law. House Bill 706, known as KIDS NOW (Kentucky Invests in Developing Success NOW) strives to reach the goal that "all young children in Kentucky are healthy and safe, possess the foundation that will enable school and personal success, and live in strong families that are supported and strengthened within their communities." Twenty-five percent of the Phase I Tobacco Settlement dollars each fiscal year fund the KIDS NOW initiative.

Major components of the KIDS NOW initiative are:

- *Assuring Maternal and Child Health:*
    - Folic Acid use and awareness campaign – over 200,000 women have received folic acid supplements and nutritional counseling at local health departments and the eight public universities;
    - Healthy Babies public information and education campaign – over 800,000 pieces of material have been distributed through local partners, with a toll-free number and website for information;
    - Expanded substance abuse treatment program for pregnant and post-partum women – over 4,000 pregnant women have received prevention services and over 400 women have received treatment;
    - Universal newborn hearing screenings – 99 percent of the babies born in Kentucky are now screened before leaving the hospital;
    - Immunization program for underinsured children – an additional 20,000 children have been immunized since July of 2000;

- Universal eye examinations prior to school entry; and
- Oral health education and prevention program – 800 medical professionals have been trained and will implement a varnishing and educational program July 1, 2003.

- *Supporting Families:*
  - HANDS: a voluntary home visiting program – 10,000 first-time families enrolled in fiscal year 2002-03 with participants delivering more full-term babies, fewer low birth weight babies, and abusing and neglecting children less;
  - Expanded funding for Children's Advocacy Centers – approximately 400 children under the age of 5 are seen each quarter; and
  - Early childhood mental health program – since July 2002 over 130 children and families who attend early care and education are receiving intervention.

- *Enhancing Early Care and Education:*
  - Increased access to child care subsidies – raised to 165 percent of poverty serving 56,000 children per month; however, due to budget shortfalls a moratorium on enrollment began in May 2003;
  - STARS for KIDS NOW quality rating system for early care and education serves as a consumer tool for parents choosing a program for their child and also serves as a roadmap for programs striving to improve quality – over 500 centers and 100 family child care homes are participating with over 40,000 children being served in these quality rated centers/homes;
  - Scholarship fund for early care and education professionals – over 3,500 college scholarships and over 550 non-college scholarships have been awarded – 250 Commonwealth Child Care Credentials have been awarded;
  - Healthy Start in Childcare program – over 5,000 phone consultations, 1,450 on-site consultations, 147 playground inspections, and over 1,000 training sessions have been provided in fiscal year 2002-03; and

  - o Community Early Childhood Councils that assess unique early childhood community needs and develop collaborative plans to meet those needs – 81 Community Early Childhood Councils representing 99 counties have been funded.

- *Establishing the Support Structure:*

  - o Early Childhood Development Authority – guidance and oversight body;

  - o Early Childhood Business Council – plan to implement awareness of issues;

  - o Early Childhood Professional Development Council – seamless system of professional development is in place with core content, training, credentialing, and articulation in place; and

  - o Systematic evaluations of the KIDS NOW initiative by a third party – programs participating in more component parts of KIDS NOW demonstrate higher quality programming for young children.

IV. ***LEADERSHIP AND CONTACT PERSON: Kim Townley, Ph.D., Acting Director, Division of Early Childhood Development, Department of Education*** (ph. 564-8341).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to full funding for KIDS NOW, continued successful operation of the component part of KIDS NOW and the sustainability of the KIDS NOW initiative.

BUILDING SELF-SUSTAINING FAMILIES

3.2 Kentucky Family Transitional Assistance Program (Welfare Reform)

I. ***CHALLENGE:*** To move welfare recipients into employment through a program that is demanding, while at the same time, providing participants with the tools needed to become self-sufficient and opportunities to meet the demands of caring for their families.

II. ***GOVERNOR PATTON'S POSITION:*** Welfare reform has been one of Governor Patton's major policy initiatives. In 1996, the Governor envisioned a new welfare system that would help build self-sufficient families while protecting children and vulnerable adults, a structure both supportive and transitional. The Patton welfare plan is based on the belief that those who are able to work should be employed. It is further guided by the recognition of work as an essential element in the restoration of individual self-esteem and family values. In addition, Governor Patton believes families, children, and vulnerable adults deserve the very best services that can be provided by state agencies and community partners. Toward this end, the Cabinet for Families and Children has successfully implemented Comprehensive Family Services (CFS) to insure collaboration at the local level among agencies serving low income and vulnerable families. CFS engages community partners, empowers families, and provides resources that enable families to achieve the goals of safety, permanency, self-sufficiency, and child well being through focusing on family strengths and family decision-making.

Securing sustainable, unsubsidized employment for welfare recipients is the ultimate goal of welfare reform. Realizing families face multiple barriers in obtaining employment and achieving self-sufficiency, Kentucky implements an array of programs to assist families in overcoming these barriers. Allowing greater access to education, implementing programs to work with substance abusers and domestic violence victims, creating skills training programs, and providing individualized case management are just a few of the strategies utilized in moving families to self-sufficiency. Kentucky takes great pride in its educational focus. Fifteen percent of Kentucky Works participants are enrolled in full-time postsecondary education—a number surpassed by no other state. Kentucky understands that education is the surest road to self-sufficiency.

The Kentucky Transitional Assistance Program (K-TAP) serves as a transitional step to help families find self-sustaining employment. The development of a program that does not harm poor children, maintains family stability, and does not require additional state funding has been a top priority for Governor Patton in the implementation of welfare reform. Governor Patton understands the long-range solution to reforming the welfare system goes beyond job creation to include good schools, safe neighborhoods, healthy communities, affordable health care, accessible child care, and ending discrimination of all kinds.

Governor Patton continues to closely monitor reauthorization of the Personal Responsibility Work Opportunity Act in Congress. The administration's plan includes some very positive aspects. Taken as a whole, however, Governor Patton believes the proposal would inflict unwarranted hardship on participants in the K-TAP. The plan's most problematic provisions are its requirements that more welfare recipients hold jobs and that they work longer hours. This increased emphasis on work threatens the education focus of Kentucky's Welfare program. Just as troublesome, the administration's proposal, by requiring those who work to spend more hours on the job, would greatly expand the need for affordable childcare. Yet, the plan proposes minimal increases in funding for childcare. Governor Patton believes that Congress can do better by giving states the challenge, and the resources, to alleviate the blighting effect of poverty on children.

III. ***PROCESS AND APPROACH:*** The demographics of poverty in Kentucky vary greatly across the state. This variation results in families having very different needs. Governor Patton understands that what works in one region may not work in another. Because the welfare plan varies from region to region, and because personal responsibility inevitably intersects with a broader community responsibility, the Patton administration worked with local leaders, community-based organizations, and employers to tailor programs that meet region-specific needs. These efforts have provided linkages for welfare recipients to services that reduce barriers to employment. Governor Patton received input from all Kentuckians on the design of the program through focus groups, public forums, and community collaboration. The end result created a welfare system developed to reflect the different characteristics of the low-income populations existing across the state, including educational levels, family size, work histories, and available employment opportunities.

Testimony to the success of the Governor's plan is the more than 56 percent decline in the State's welfare rolls. In addition, 88 percent of all mandatory adult recipients are participating in activities to help move their families toward self-sufficiency. Realizing that Kentucky continues to face major challenges presented by welfare reform, the Governor has focused on post-employment services and strategies to assist families transitioning into employment and to encourage job retention. The Family Alternatives Diversion Program and employment retention services were created specifically for the purpose of preventing working families from re-entering the welfare system. Monetary payments, transportation assistance, and childcare assistance are just a few of the services available to working families. The Governor's commitment is truly an "anti-poverty" initiative. Kentucky's plan strategically addresses many of the issues a family may face in becoming self-sufficient.

Recognizing Eastern Kentucky poses unique challenges to welfare reform, the Governor has placed special emphasis on serving the needs of this population. Contracting services with local agencies, creating unique job strategies, and providing strong post-employment services are focused on meeting the unique needs of the Appalachian counties.

Governor Patton's plan for reforming the welfare system in the Commonwealth reflects his commitment to craft a compassionate system that gives a hand-up to those truly in need. In addition, Governor Patton remains focused on new challenges that continue to arise as a result of welfare reform. Through research conducted by the University of Louisville, Kentucky's welfare system is constantly being reviewed and monitored. As a result, Kentucky is able to improve and enhance its welfare programs and better serve its recipients. Designed and implemented with compassion and a commitment to strengthen Kentucky families, Governor Patton's welfare reform plan has the potential to return pride and dignity, not just to individuals and families, but to generations of Kentuckians as well.

IV. ***LEADERSHIP AND CONTACT PERSONS: Viola P. Miller, Secretary of the Cabinet for Families and Children*** (ph 564-7130); ***Dietra Paris, Commissioner, Department for Community Based Services*** (ph. 564-3703).

V. ***GOALS AND TIMEFRAME:*** Federal Temporary Assistance for Needy Families (TANF) funding authorization will end in federal fiscal year 2001-02. Governor Patton is supporting reauthorization ensuring Kentucky's families continue to receive the assistance they need to insure self-sufficiency.

BUILDING SELF-SUSTAINING FAMILIES

3.3 Health Insurance for Kentucky's Children

I. ***CHALLENGE:*** To assure that low-income children without health insurance in Kentucky have access to quality and age appropriate health care, provided on a consistent and affordable basis.

II. ***GOVERNOR PATTON'S POSITION:*** The uninsured children of Kentucky are primarily the children of the working poor, who do not qualify for Medicaid but whose families cannot afford insurance. On July 1, 1998, a new federal initiative to address the problem was translated in Kentucky into the Kentucky Children's Health Insurance Program or "KCHIP." The Patton Administration worked in partnership with the General Assembly to assure passage of the KCHIP legislation which is a vital step forward for children's health in the Commonwealth.

Governor Patton secured sponsorship and passage of Senate Bill 128 in the 1998 Regular Session of the General Assembly. This bill provided for the creation of the KCHIP and charged the Cabinet for Health Services with implementation. The Governor has since included state General Funds in the budget for Kentucky to obtain its full annual allotments of federal funds. KCHIP has expended $330,499,673 (federal share $263,697,920 and state share $66,801,752) since the beginning of the program through April 2003. The success of the program has enabled Kentucky to access an additional $135,159,667 in federal dollars through redistributed funds. These funds enable Kentucky to continue operating the program at the current level through state fiscal year 2004-05. Only 18 states have been successful enough to receive redistributed funds.

III. ***PROCESS AND APPROACH:*** An aggressive outreach campaign to enroll children in KCHIP began in June 1999 and included taped messages by Governor Patton distributed across the state. Efforts to inform low-income families continues to be supported by an enthusiastic grassroots effort. The cabinet contracts with selected health departments to distribute information on how to enroll children including a statewide 800 number, a statewide TTY number, and translation services. Special outreach programs have been developed for schools, Family Resources and Youth Services Centers (FRYSCs), businesses and the Hispanic community, among others, and many community groups have volunteered their assistance.

Program emphasis has shifted to "beyond coverage" to improve children's health. These initiatives include assuring that every child has a medical home and receives appropriate preventive and primary care through that medical home and educating parents regarding the effective use of the health care system. A recipient brochure helps to facilitate these initiatives.

IV. ***LEADERSHIP AND CONTACT PERSONS: Marcia R. Morgan, Secretary of the Cabinet for Health Services*** (ph. 564-7042).

V. ***GOALS AND TIMEFRAME:*** Phase I of the program was implemented July 1, 1998, and expanded Medicaid coverage to children ages 14 through 18 in families up to 100 percent of the Federal Poverty Level (FPL). Phase I will be completed at the end of federal fiscal year 2002 when all children at 100 percent FPL are covered by Medicaid. Phase II started July 1, 1999, and expands Medicaid coverage through KCHIP to uninsured children in families up to 150 percent FPL. Phase III began November 1, 1999, and uninsured children in families from 150 percent to 200 percent FPL are covered through a Medicaid look-alike program.

KCHIP enrollment grew rapidly in the initial stages of the program, and enrollment continues to remain stable. As of April 2003, approximately 164,090 children had enrolled in KCHIP since the program began in July 1998 and monthly enrollment for state fiscal year 2002-03 averaged more than 51,000 children per month. The number of uninsured children at or below 200 percent FPL without health insurance has decreased from 109,000 to 70,000 over a three-year period according to U.S. Census Bureau, Current Population Survey, 1999-2001.

BUILDING SELF-SUSTAINING FAMILIES

3.4 Women's Physical and Mental Health Initiative

I. ***CHALLENGE:*** To assure that women in Kentucky have the opportunity to realize their full potential without facing or losing a battle to the diseases, conditions and injuries which impact women most dramatically, including cancer, heart disease, substance abuse, depression, sexual assault, or domestic violence.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton is joined by the First Lady in emphasizing the need to address the issues of women's health. The Governor and Mrs. Patton recognize the dramatic impact which disease has on women and their families and believe that many of the most severely impacted have not received sufficient attention from the public and the medical community. Some of the most pressing issues include the diseases of breast cancer, which struck approximately 3,000 women in Kentucky during 2000; endometriosis, which profoundly effects the quality of life for 30 to 40 percent of all women; heart disease, which is the number one killer of Kentucky women; and osteoporosis, which causes at least one fracture in 50 percent of postmenopausal women. Additionally, an estimated 112,148 women in Kentucky abuse alcohol or other drugs, and mental disorders, such as depression, disproportionately effect the female population. The Governor and Mrs. Patton also contend that sexual assault and domestic violence directly relate to a woman's health, given that rates of depression, suicide, and injury among victims of these offenses are higher than the general population of women.

Governor Patton's position on addressing women's health is as multifaceted as the issue itself. He has successfully supported mandating insurance coverage for the treatment of diseases primarily impacting women that have not been previously covered (including breast reconstructive surgery following mastectomies), but also wants further study on the adequacy of insurance coverage in these critical areas. He believes that enhanced public education and prevention efforts are needed and that government agencies and the medical community need to improve the way they assess and understand the status of women's physical and mental health in each region of the Commonwealth.

III. ***PROCESS AND APPROACH:*** Governor and Mrs. Patton joined women legislators and women's advocacy groups in successfully winning passage of House Bill 864 in the 1998 Regular Session of the General Assembly. This bill mandated insurance coverage for breast reconstruction after mastectomies, for the diagnosis and treatment of endometriosis, for bone density testing to fight osteoporosis, and ensured that insurance companies do not deny coverage to a person simply because they are a victim of domestic violence.

House Bill 864 also provided for creation of an Office of Women's Health to serve as a repository for data and information affecting the health and mental health status of women. To emphasize the importance of mental health as being inclusive of a woman's overall well being, the Governor and Mrs. Patton initiated a change in the name of the office to the Office of Women's Physical and Mental Health (OWPMH). This was ratified in statute by the 2001 General Assembly. The 2001 legislation also organizationally placed the Office of Women's Physical and Mental Health within the Office of the Secretary in the Cabinet for Health Services, thus, increasing the visibility of the office, making women's health a top priority, and assuring that the Office's work would interface with all offices and departments, including the Office on Aging, the Department for Public Health, and the Department for Mental Health and Mental Retardation.

The 1998 legislation also strengthened the Kentucky Sexual Assault Nurse Examiner Program (SANE), which relates to medical exams for rape victims. The SANE Program was created by the 1996 General Assembly and made Kentucky the first state in the country to create a statewide certification program for nurses conducting forensic rape examinations.

House Bill 327, enacted in the 2002 General Assembly, enables the office to accept "grants, gifts and bequests" to further the mission of the office. In May of 2002, the OWPMH released the first, comprehensive assessment of the health of Kentucky's women, entitled, *"Kentucky Women's Health 2002: Data, Developments and Decisions.*" This report is a living document that will be used to benchmark the status of women's health for years to come.

The legislation requires the office maintain a Women's Health Resource Center. To do this, the office has built and managed an extensive website for resource information on services, hot lines, and programs on a broad range of women's health issues. The website provides a free listing service for women's health events, either in the private or public sector. The website also tracks and posts legislative developments each session of the General Assembly. As an offshoot of the website, the office sends out a e-list serve message twice monthly with a topic of focus on women's health and specific information on how it relates to women in Kentucky.

In addition to these substantive legislative reforms, Governor Patton has also created a Kentucky Breast Cancer Task Force to draw the state's attention to this particularly devastating disease. The Task Force which is made up of the Kentucky Breast Cancer Coalition, Kentucky African Americans Against Cancer, the Kentucky Breast Cancer Advisory Committee, Health Kentucky, Inc., the Kentucky Cancer Program, the American Cancer Society, the Kentucky Department for Public Health, the Kentucky Medical Association, a practicing radiologist, a practicing physician, a practicing medical oncologist, a medical social worker, breast cancer survivors and others, is staffed by an Executive Director and support staff. Under the appointed leadership of the First Lady of the Commonwealth, the Task Force is charged with assessing the effectiveness of education programs on breast cancer, the adequacy of screening and treatment programs, the adequacy of health insurance coverage, the needs of uninsured and underinsured women, the availability of funding, and related concerns.

During the 2003 legislative session, passage of Senate Bill 88 officially appointed, in statute, the Executive Director of the OWPMH, to the Kentucky Breast Cancer Advisory Committee.

IV. ***LEADERSHIP AND CONTACT PERSONS: Gwen Mayes, Executive Director, Office of Women's Physical and Mental Health*** (ph. 564-9358).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to making certain that the issues impacting women's physical and mental health receive focused attention throughout his administration. In keeping with this commitment, Governor Patton has proclaimed the month of May as Women's Health Awareness Month in Kentucky, every May since the inception of the OWPMH in 2000.

BUILDING SELF-SUSTAINING FAMILIES

3.5 Governor's Office of Child Abuse and Domestic Violence Services

I. ***CHALLENGE***: To heighten the awareness of Kentuckians to the plight of children and adults who are harmed by domestic violence, child abuse and sexual assault; and to enhance the criminal justice and human service systems response to the needs of victims of these crimes.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton and the First Lady have prioritized improving Kentucky's protection of women and children harmed by domestic abuse, child maltreatment, and sexual assault. They believe that the public must be educated, and laws and programs must be enhanced so that the justice system can react swiftly to protect those who have been victimized.

III. ***PROCESS AND APPROACH:*** Governor Patton created the Governor's Office of Child Abuse and Domestic Violence Services in April of 1996 to ensure that child abuse, domestic violence, and sexual assault receive priority attention. The First Lady was named as a Special Advisor to the Office, which was codified as a permanent resource for Kentuckians during the 1998 General Assembly. The Office provides a coordinating function for victim service initiatives being undertaken by the Patton Administration, including:

- ***Statewide Networking and Information Sharing:*** The Office provides training and consultation to victim advocates and criminal justice professionals through a web page, training, case consultation, and other efforts. Training to meet statutory training requirements are also provided for mental health professionals, judges, domestic relations commissioners, physicians, nurses, law enforcement professionals, and others.

- ***Public Awareness:*** Governor Patton, the First Lady, and Office staff provide speeches, presentations, and press events in order to raise the public's awareness and prevent abuse. Annually, the Governor proclaims Domestic Violence Awareness Month, Child Abuse Prevention Month, and Sexual Assault Awareness Month.

- ***Program Development and Coordination:*** The Office works, in conjunction with the Justice, Families and Children, and Health Services Cabinets, on state of the art programming addressing child abuse, domestic violence, and rape. The Office assists in coordinating projects which cross Cabinets or branches of government, or which are priorities of the Governor. Examples include:

- **V-NET System** – This statewide communication network links Kentucky victim advocates by computer. V-NET provides advocates in Domestic Violence, Rape Crisis and Child Advocacy Centers, prosecutors' offices, child and adult protective services offices, and other victim advocacy agencies with e-mail, chat rooms, discussion boards and a specialized calendar of events. V-NET allows advocates to locate incarcerated offenders or register victims for notification on an offender's release. V-NET provides victim advocates with grant information and quick access to web sites that relate to victim services. Kentucky is the first state to implement a comprehensive communication system like V-NET for its victim advocates.

- **V.I.N.E.® System** – On July 18, 1997, Governor Patton announced completion of the nation's first statewide, automated victim notification system. In 2000 the Governor's Office of Child Abuse and Domestic Violence Services successfully expanded the victim notification resource in Kentucky to allow victims to receive notification automatically when a respondent to a protective order attempts to purchase a firearm. This additional protection for the federal Brady System is the first of its kind in the country.

- **S.A.N.E.** – Kentucky is the first to statutorily mandate development of a statewide sexual assault nurse examiner program in order to improve the treatment of sexual assault victims. The administration has strengthened the S.A.N.E. Program in two legislative sessions by allowing rape exams to be conducted in locations other than emergency rooms and by clarifying the procedures that make up a rape examination. In the 2004 budget, the program was further strengthened by moving the Rape Victim Assistance Fund which pays for forensic rape examinations from the Attorney General's Office to the Crime Victim Compensation Board in order to access federal matching funds.

- **Domestic Violence and Sexual Assault in the Public Workplace –** In 2001 Governor Patton implemented a policy for all Executive Branch employees with three key components: zero tolerance for all acts of sexual or domestic violence; the creation of a sensitive and safe environment for victims; and increased education for all employees. The Administration worked with the Judicial and Legislative Branches to also enact this protective policy for their employees.

- ***Legislative Initiatives:*** The Governor and First Lady have formed a strong partnership with the General Assembly to pass substantive reform on behalf of victims of child abuse, domestic violence, rape and other crimes. The Governor and First Lady have successfully proposed over 20 pieces of legislation addressing these specific areas since the administration began. Three common themes have been woven through every proposal made by the Patton Administration: *to protect women and children, to get tough on offenders, and to use innovative technology to improve the system of justice.*

  Highlights of the Governor and First Lady's legislative packages from 1996-2002 include:

  <u>2002</u>: Establishing automatic notification for victims when domestic violence offenders attempt to purchase firearms; protecting the records and videotapes of sexually abused children; providing protective orders for stalking victims; and strengthening sexual assault nurse examiner program. Specific bills passed include:

  SB 89 AN ACT relating to domestic violence information;

  SB 227 AN ACT relating to sexual offenses;

  HB 393 AN ACT relating to children's advocacy centers;

  HB 308 AN ACT relating to sexual assault responses; and

  HB 428 AN ACT relating to stalking protective orders.

  <u>2000</u>: Creation of Children's Advocacy Centers, establishment of Governor's Council on Domestic Violence and Sexual Assault, further domestic violence reforms, strengthening sex crimes statutes, and providing civil remedies to stalking victims. Specific bills passed include:

  SB 263 AN ACT relating to sexual offenses;

  SB 116 AN ACT relating to victims of crime;

  HB 427 AN ACT relating to domestic violence and sexual assault;

  HB 237 AN ACT relating to children's advocacy centers; and

HB 448 AN ACT relating to rape crisis centers.

1998: Far-reaching reform of the child protection system, an omnibus Crime Bill, and the statutory creation of the Governor's Office of Child Abuse and Domestic Violence Services. Specific bills passed include:

SB 264 AN ACT relating to the establishment of the Governor's Office of Child Abuse and Domestic Violence Services;

HB 142 AN ACT relating to child protection;

HB 455 AN ACT relating to crime (victim services portions of Governor's Crime Bill); and

HB 864 AN ACT relating to women's health.

1996: Comprehensive reform related to domestic violence, strengthening the roles of victim advocates, and creating a statewide victim notification system. Specific bills passed include:

SB 169 AN ACT relating to child victim testimony;

SB 105 AN ACT relating to domestic violence protective orders;

SB 108 AN ACT relating to victim notification;

SR 47 A RESOLUTION relating to domestic violence and child abuse curricula in universities;

HB 309 AN ACT relating to domestic violence training and policy;

HB 310 AN ACT relating to domestic violence offenses; and

HB 315 AN ACT relating to victim advocates in court.

In order to support victim-serving agencies and to create new, innovative programs, the Governor and First Lady have offered a budget with expansion funds for victim services in every biennium since taking office.

- ***Children's Advocacy Centers:*** Children's Advocacy Centers are a way to ensure that the investigation and prosecution of child sexual abuse cases are well coordinated in local communities. Advocacy Centers are locations where forensic interviewing by law enforcement and staff of the Department of Community Based Services is conducted, medical examinations are completed, and where therapy and other support services are provided to children and their families. By 2004 the state budget will exceed $2 million for Child Advocacy Centers statewide, funding at least one CAC in each Area Development District. Over 3,500 children are now served through Children's Advocacy Centers annually.

- ***Governor's Council on Domestic Violence and Sexual Assault:*** In 1996 Governor Patton created Kentucky's first Governor's Council on Domestic Violence, naming Mrs. Patton and former Governor John Y. Brown as Co-Chairs. The 2000 General Assembly codified the Council and expanded its scope to include rape. The Council now operates with 39 multidisciplinary members and is co-chaired by Mrs. Patton and Secretary of State John Y. Brown III.

- ***University of Kentucky Center for Research on Violence Against Women:*** In September 2002 the Patton Administration joined University of Kentucky President Lee Todd to create a specialized Center for Research on Violence Against Women. The Center will focus on three primary areas: the health and mental health impact of violence against women; legal issues; and public policy and leadership. Specifically, the Center will:

  1. Pursue research activities to more fully understand why domestic violence, stalking and rape occur, who is impacted and in what way, and how criminal justice, mental health and health care professionals can intervene to end it;

  2. Promote development of educational curricula for graduate students in psychology, social work, law, medicine, nursing, public policy, gender studies, and other disciplines on how to intervene effectively with victims and offenders;

  3. Develop materials and initiatives to transfer important research findings to the practice field;

  4. Develop a leadership institute to enhance the leadership and administrative skills of existing directors of non-profit victim services

agencies (Rape Crisis Centers and Spouse Abuse Centers in Kentucky); and

5. Coordinate national research conferences and think tanks to provide a forum through which the national research agenda in the area of violence against women can be strengthened.

The success of the Center will be seen in improved science and education in the short run and safer Kentucky families in the long run.

IV. ***LEADERSHIP AND CONTACT PERSON: Carol E. Jordan, Executive Director, Governor's Office of Child Abuse and Domestic Violence Services*** (ph. 564-2611).

V. ***ROLE OF THE FIRST LADY:*** Mrs. Patton serves as Special Advisor for the Governor's Office of Child Abuse and Domestic Violence Services and as Co-Chair of the Governor's Council on Domestic Violence and Sexual Assault. She provides strong leadership to the Office, advocates with the General Assembly on behalf of victims, provides public speeches, and other efforts. She has received numerous awards from statewide and national organizations for her efforts.

VI. ***GOALS AND TIMEFRAME:*** The Governor and Mrs. Patton are committed to making child abuse, domestic violence, and rape prevention priorities in each year of the Administration.

BUILDING SELF-SUSTAINING FAMILIES

3.6 Health Insurance Reform

I. ***CHALLENGE:*** To build upon the success of the Kentucky Access program, which provides access to quality health benefits for high cost individuals while maintaining individual consumer protections such as portability, guaranteed renewability, and limitations on pre-existing condition exclusions; and to restore stability to Kentucky's health insurance market and foster a competitive market that provides consumers adequate choice of quality health benefit plans; and to successfully implement the provisions of House Bill 390 to provide consumers the alternative of having their claim denial reviewed by an independent third party.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor believes making health insurance more affordable and more accessible to all Kentuckians is crucial to our progression as a society. Governor Patton continues to focus on the issues of affordability and choice of plans, and is particularly sensitive to such issues as they relate to the individual health insurance market and the small employer (two to ten employees) market.

PROCESS AND APPROACH: Kentucky enacted a major health care reform package in 1994 to make health care accessible to more Kentucky citizens. Among other things, this health care reform required guaranteed issuance of health insurance, standardized benefit plans, establishment of a health purchasing alliance, display of fee schedules in doctors' offices, detailed reporting on treatment outcomes, and a tax on pharmacies. This health care reform caused serious disruptions in Kentucky's health insurance market and in Kentucky's health care system. Over 40 insurers pulled out of the individual market and left the state, leaving only two insurers in the individual market.

During the next two biennial legislative sessions, Kentucky implemented various initiatives in an attempt to attract insurers back to the individual market. Each initiative tried to keep as many consumer protections as possible, with emphasis on maintaining access to insurance for individuals with chronic or high cost medical conditions. Unfortunately, none of the initiatives were successful in attracting insurers to the individual market.

During the 2000 legislative session, Governor Patton proposed and the General Assembly approved the creation of Kentucky Access as a high-risk pool to ensure that health care coverage is made available to each Kentucky resident applying and qualifying for coverage. As indicated below, Kentucky Access has been successful in attracting insurers to the individual market.

III. Governor Patton continues to provide the needed support to the Department of Insurance for the implementation and operation of Kentucky Access. Kentucky Access is a health insurance pool which serves as Kentucky's "acceptable alternative mechanism" under the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA). As the Commonwealth's HIPAA acceptable alternative mechanism, Kentucky Access ensures the provision in the individual insurance market of several important consumer protections including portability of coverage, guaranteed renewability, and limitations on pre-existing conditions.

Kentucky Access also serves as a "high-risk pool" to provide quality health benefits to individuals with high cost medical conditions. Such individuals are frequently unable to obtain health care coverage in the individual insurance market.

As of June 30, 2003, Kentucky Access had received applications from 3,530 individuals, by the same date, 2,970 individuals had enrolled in and benefited from the program. Prior to the commencement of Kentucky Access on January 1, 2001, the Department of Insurance estimated that between 3,000 and 5,000 individuals would make use of the program by the end of the program's fourth full year of operation.

In addition, Governor Patton continues to initiate discussions, through the Department of Insurance, to encourage carriers to return to Kentucky's individual health insurance market. Since Kentucky Access commenced operations on January 1, 2001, four additional carriers have joined Anthem and Humana in the individual market: Fortis Insurance Company; John Alden Life Insurance Company; Physicians Mutual Insurance Company; and Mega Life and Health Insurance Company. The addition of these new carriers has tripled the number of commercial carriers writing individual business in the state, and has increased from two to seven the total number of health care coverage choices (including Kentucky Access) in the individual market.

The increase in the number of carriers has helped foster healthy competition in the market. This competition has already resulted in the availability of additional coverage choices, and has (thus far) had a stabilizing impact on overall rates.

One of Governor Patton's previously stated goals was to encourage legislation that created an external appeals process for consumers to appeal adverse determinations by their health insurance carriers to independent third parties. This goal was achieved in July 2000 with implementation of House Bill 390, and the establishment of Kentucky's first Independent External Review Program. Since that time, the Department of Insurance has certified seven independent review entities to perform external reviews in this state. The availability of external review was initially publicized through public insurance forums held throughout the state in the Summer of 2000, and continues to be promoted by word of mouth, inclusion of external review information in denial letters issued by insurance carriers, and distribution of educational materials to consumers and healthcare providers by the Department of Insurance. The program has been highly effective in resolving the disputes of 297 consumers with insurance carriers in this state since its inception. The insurance carrier not only coordinates assignment of the external review with an independent review entity, but also pays for the cost of the review, except for a $25 filing fee paid by the consumer. This filing fee is waived if there is financial hardship and refunded if the external review favors the consumer. An external review determination by a certified independent review entity is binding on the insurance carrier; however, the consumer dissatisfied with an external review determination is not prohibited from seeking further remedy through the civil court system.

IV. ***LEADERSHIP AND CONTACT PERSONS: Janie Miller, Commissioner of Insurance*** (ph. 564-6026); ***Glenn Jennings, Deputy Commissioner of Insurance*** (ph. 564-6026).

V. ***GOALS AND TIMEFRAME:*** Relevant divisions of the Department of Insurance, including the Department's Division of Kentucky Access, are working to continue implementation and operation of the Kentucky Access program.

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3.7 Reductions in Teen Smoking

I. ***CHALLENGE:*** To make long term improvements in public health by reducing underage access to cigarettes.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor has made clear that he supports efforts to reduce underage access to cigarettes. The Governor recognizes the importance of enforcing federal and state law prohibiting the sale of tobacco products to minors. He also believes adults should have the freedom to make choices on the use of tobacco products.

III. ***PROCESS AND APPROACH:*** The Governor has attacked the problem from four angles. First, he advocated, and won passage of a tougher new law in 1996, which bolsters the enforcement of Kentucky's ban on tobacco sales to minors and also stiffens the penalties for those who violate the law. In addition, in 2000, Governor Patton won passage of a new state law that also made it illegal for underage teens to possess tobacco, as well as attempting to buy it. Second, he has allocated funds in order to comply with a federal mandate ("the SYNAR Amendment") which requires states to significantly reduce tobacco sales to minors over five years, or lose federal funding for state substance abuse programs. Third, like many states, Kentucky in the past received funding from the federal government to enhance current state enforcement efforts prohibiting youth access. That funding allowed Kentucky to conduct 5,000 compliance checks in fiscal year 1998-99, doubling previous enforcement operations. Fourth, the Governor supported the provisions in the Master Settlement Agreement between the nation's Attorneys General and the tobacco companies that establish national trusts to combat youth smoking.

Approximately $3.1 million in MSA dollars in fiscal year 2002-03; and $2.7 million fiscal year 2003-04 will focus on reducing youth initiation through school prevention curricula; advocacy programs such as SQUADS (Study, Question, Understand, Act, Debrief, Success) and TATU (Teens Against Tobacco Use); CDC's Tobacco-Free Sports Grant; and the 2nd Annual Kentucky Youth Tobacco Control Summit. Cessation programs such as TEG/TAP and N.O.T. will be made available for teens that want to quit. A Spit Tobacco Toolkit was developed and distributed statewide to local health departments and school nurses to create an awareness of the dangers of spit tobacco.

In fiscal year 1999-2000 the Department of Alcoholic Beverage Control (ABC) conducted 6,074 tobacco compliance checks, using minors. The resulting non-compliance rate was 10.9 percent. Those outlets inspected included gas/convenience stores, restaurants, supermarkets, pharmacies, grocery stores, etc. As a result of those tobacco compliance checks, the Department collected approximately $26,000 in fines. Furthermore, ABC inspected 3,296 outlets to ascertain that proper signage was displayed. This is in addition to the signage inspections completed by the Department of Agriculture. Signage must be prominently displayed by the retailer, indicating that selling tobacco products to minors is prohibited.

To establish the SYNAR benchmark for 2001, 1,154 establishments statewide, which sell tobacco products, were surveyed. The non-compliance rate for those outlets was 12.3 percent. This was down from the non-compliance rate of 19.7 percent in 1999. The survey continues to indicate a drop in the sale of tobacco products to minors in Kentucky. The challenge for the future is to continue to lower the non-compliance rates indicated in the study. Such statistics are well within the goals of the federal SYNAR Amendment. Most importantly, if youth access to retail sale is tremendously difficult, teens may be less likely to smoke.

The Department for Public Health and Local Health Departments address youth access through vendor education and “Operation Storefront.” Vendor education ranges from one-on-one training to group training. Kentucky regulations and penalties, MSA language, providing signage for carding and employee training are included in vendor education sessions. The state ABC office provides direction for this effort.

Operation Storefront is a collaborative effort between the ABC office and local health departments. Youth visit several businesses and do an outside survey and an inside survey that includes inventory of tobacco signs and promotions. Afterwards the youth and their adult leaders present the results of their surveys to the business owner. Owners are rewarded with certificates and publicity in a local newspaper. If the business is not in compliance at that time, vendor education is offered.

Health departments also help monitor the youth access provision of the MSA including: prohibition of gifts to underage persons based on proof of purchase; the prohibition of distribution of free samples to underage persons; and the prohibition of production of “kiddie” packs (packs that contain fewer than 20 cigarettes or loose tobacco containing fewer than 0.60 ounces of tobacco.)

Additionally, in 1998 Governor Patton supported and signed a new law, which strengthened the youth purchasing requirements. Any sworn peace officer may issue a uniform citation to a minor who attempts to purchase or successfully purchases tobacco products. The law requires the following:

- warning signs to minors to be placed in a conspicuous place;

- sellers who violate the law for a first offense will receive a $100-$500 fine; a second offense is $500-$1,000;

- imposes penalties for attempted purchase by minors, with penalties up to a $200 fine and 40 hours of community service;

- requires retail establishments with vending machines to keep them within the "line of sight" of the cashier; and

- sets aside 1/30 of the revenue from the state excise tax on the sale of cigarettes for enforcement.

IV. ***LEADERSHIP AND CONTACT PERSONS: Rick Johnstone, Commissioner, Department of Alcohol Beverage Control*** (ph. 564-4850); ***Barbara Sparrow, Coordinator, Teen Tobacco Enforcement Program*** (ph. 564-4850); ***Denis Fleming, General Counsel to the Governor*** (ph. 564-2611).

V. ***GOALS AND TIMEFRAME:*** The timetable for compliance with the SYNAR Amendment is five years; however, the Governor's commitment to reducing youth access to tobacco is an ongoing one.

BUILDING SELF-SUSTAINING FAMILIES

3.8 Improving Kentucky's Child Protection Services Network

I. ***CHALLENGE:*** To improve Kentucky's ability to protect children at risk of abuse or neglect and insure that children have permanent homes rather than languishing for years in the state's out-of-home placement system.

II. ***GOVERNOR PATTON'S POSITION:*** Since the beginning of his Administration the Governor has supported state and federal legislation which, while supporting the value of biological families, establishes the safety and well-being of children as the core value and focus of child protective services. Further, his efforts have affirmed the right of every child to a secure, permanent, loving home environment.

III. ***PROCESS AND APPROACH:*** Governor Patton advocated and won passage of House Bill 142 – the Child Protection bill – in the 1998 legislative session. This bill closely mirrored subsequent federal legislation, the Adoption and Safe Families Act. The Governor also initiated a massive effort to improve Kentucky's adoption system, named Adoption 2002, to insure that children who cannot be safely maintained in their own homes move swiftly out of the state system into permanent homes. Additional legislation was passed in 2000 that amended KRS 620.040 and created a more effective, efficient, and measurable process for child abuse and neglect evaluation and intervention.

House Bill 142/Adoption and Safe Families Act

- This legislation makes the safety of the child paramount. The priority is on a safe and permanent environment for children. Plans will be made with families when possible outlining what is required by them to meet safety goals.

- Children are required to be in permanent homes or, if in temporary care, have a plan for permanency. Moreover, children will move more rapidly to permanent placements through family preservation, family support, and family reunification services.

- If children are not growing and developing appropriately, they are assessed for special health care needs. Services are sought through appropriate community providers, and appropriate caregivers are involved in identifying ways to help meet the child's special needs.

- Trained adoptive and foster providers and relatives are now available locally. The community is involved in both recruitment and support of these families.

- The KY Foster/Adoptive Training Support Network is operating in all 16 regions. Foster/Adoptive Parents and agency staff work on teams to provide recruitment, retention, support services, and training to Kentucky's resource homes.

- The statewide Foster/Adoptive Mentoring Program provides training and support to new resource homes.

- Adoptive Support of Kentucky (ASK) provides support services to adoptive parents through a statewide network.

- A new assessment process focuses on safety and risk to assist workers in sound, uniform decision making. A complete level of care system for all children in out of home care assists with appropriate temporary placement.

- During the 2000 Regular Session of the General Assembly, the administration supported and gained passage of a Kinship Care Program to provide enhanced financial assistance to qualified relative caregivers as well as case management and placement support services. The Kinship Care Program enables children to maintain a connection to their families and keeps them from having to enter the foster care system. The Department for Community Based Services cannot close a kinship care case until the relative achieves permanent custody or children are reunited with their parents.

- Social workers attempt to work with birth families to determine if reunification is appropriate at the same time the children are living with the relative. Birth parents are given an opportunity to work toward being able to provide safety and stability for their children in an effort to reunite families whenever possible.

<u>Adoption 2003</u>

- During fiscal year 2001-02, 567 of Kentucky's children were adopted. The goal of Adoption 2003 is to increase the number of children adopted in Kentucky. A single approval process for foster and adoptive families is in place, and the Cabinet will significantly increase the number of Kentucky's adoptions in federal fiscal year 2002-03. Barriers to adoption are being identified and addressed.

- Incentives and supports for adoptive families are continuously reviewed for improvement, and oversight of foster parent adoption has been regionalized to enhance efficiency in achieving permanency for children.

- Medically fragile and special needs compensation care rates were adjusted to respond to the unique needs of many of these children.

- Adoption information technology is being implemented to promote increased matches of waiting children with prospective adoptive families.

Multiple Response Plan

- Legislation for a Multiple Response System (House Bill 204) was passed in the 2000 legislative session. It is a community and neighborhood approach to preventing abuse/reabuse and supporting all families to keep children safe. Multiple Response was implemented statewide on June 18, 2001.

- Comprehensive Family Services (CFS) and Multiple Response go hand in hand. CFS and Multiple Response are effective tools which empower families as partners and involve community partners in the resolution of issues which effect the safety, permanency, and well being of all family members.

- There are four tracks a referral can take when a call comes into a local Department for Community Based Services office. The four tracks are: Resource Linkage, Law Enforcement, Family in Need of Services Assessment (FINSA), and Investigation. If a referral meets criteria, it will be dealt with on the assessed level of risk: low or moderate/high risk.

- The Continuous Quality Assessment (CQA) tool is used to assess risk and assist in making decisions regarding the safety issues and strengths of a family. Protection and Permanency staff receive ongoing training on this tool. The CQA is the cornerstone of the case planning process with families.

IV. ***LEADERSHIP AND CONTACT PERSONS: Viola Miller, Secretary of the Cabinet for Families and Children*** (ph. 564-7130).

V. ***GOALS AND TIMEFRAME:*** The Governor, recognizing the critical role of communities in insuring that our children are safe and nurtured, has supported major reorganization of the Cabinet for Families and Children. This restructuring insures that all efforts focus on the well being of our children within families and families within communities. Child protection and permanency is everyone’s responsibility and an integral part of building strong, self-sustaining communities. The administration’s commitment to protecting our children is exemplified by the Governor's commitment to having Kentucky's Child and Adult Protection Services, Adoption and Foster Care, meet national best practice standards as defined by the Council on Accreditation (COA) for Family and Child Services. Kentucky attained COA accreditation in fiscal year 2002-03. We are one of only two states that have this accreditation and were the first to voluntarily achieve this goal. Illinois is the other state but their accreditation came as a result of a court order.

BUILDING SELF-SUSTAINING FAMILIES

3.9 Affordable Housing Initiatives

I. ***CHALLENGE:*** To assure that all of Kentucky's families have access to safe, decent, affordable housing and thereby increase the opportunity for economic stability and prosperity for each family.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has always embraced a holistic approach to addressing social and economic issues. He understands that as our families prosper and have chances to succeed, so will the state. Governor Patton recognizes that safe, decent, affordable housing -- along with good jobs, accessible and affordable health and childcare and educational opportunities – is a key to prosperity. Not only is safe, decent, affordable housing a basic need for individuals, but integral to the safety, health and welfare of individuals and communities.

III. ***PROCESS AND APPROACH:*** During the 1998, 2000, 2002, and 2003 Sessions of the General Assembly, Governor Patton supported and helped win passage of bills that provide a funding source for the state's Affordable Housing Trust Fund (AHTF). In 1998, House Bill 289 provided for the transfer of Kentucky Lottery Corporation unclaimed prize moneys over $6 million to the AHTF during the 1998-2000 biennium. In 2000, House Bill 392 reauthorized this transfer for fiscal years 2000-01 and 2001-02. For fiscal year 2002-03, the AHTF will receive from the Kentucky Lottery Corporation any unclaimed prize moneys exceeding $6 million but not to exceed $3.3 million. In addition, the AHTF will receive $200,000 from the General Fund. For 2004, $3.2 million will be transferred to the AHTF from the General Fund. As of March 2003, nearly $23 million from all sources has been allocated to the AHTF. Since 1998, nearly 80 percent of that amount has been in the form of unclaimed lottery funds. AHTF funds have also stimulated additional investments of more than $149 million from other sources. Because of the AHTF, 3,652 units of safe, affordable housing are being made available to Kentuckians. The AHTF serves Kentucky's poorest families by awarding funds on a competitive basis to nonprofit agencies, local governments and housing authorities which utilize the funds for new construction or rehabilitation of owned and rental housing.

Also in the 1998 legislative session, Governor Patton supported and signed into law House Bill 382, which revised the formula utilized by Kentucky in allocating private activity bond authority. This bill provides that state issuers of private activity bonds, namely Kentucky Housing Corporation (KHC) and the Kentucky Higher Education Student Loan Corporation (KHSLC), can access up to 60 percent of the state's allocation, set by the federal government. KHC's statewide homeownership program, which provides low interest rate mortgages for qualified, first-time homebuyers, is primarily financed by the proceeds from the issuance of private activity bonds. KHC was awarded $75 million of authority in 1998 (which was an increase of $36 million over the previous year). In 1999, KHC was awarded $94.5 million of authority; in 2000, the award was $95 million; in 2001, $121 million; in 2002, $146 million; and in 2003, $110.5 million.

House Bill 147, which Governor Patton supported and signed into law during the 2000 General Assembly, increased KHC's debt limit from $1.125 billion to $2.5 billion. This significant legislation will enable KHC to provide home mortgages to approximately 30,000 families over the next decade, as well as providing leverage opportunities for their programs.

During the 2002 legislative session, Governor Patton supported and signed into law Senate Bill 45 which increased KHC's income limits for home buyers to the Federal limits, thereby making over 1,000 additional families per year eligible to purchase their first home.

During the 2003 Regular Session of the General Assembly, House Bill 287 was signed into law by Governor Patton, offering new protection for low-income consumers from "predatory" lenders. The bill requires lenders to maintain a physical office in Kentucky, to explain a borrower's rights and responsibilities and defines a high-cost home loan to comply with the federal Home Ownership and Equity Protection Act of 1994.

IV. ***LEADERSHIP AND CONTACT PERSON: F. Lynn Luallen, Chief Executive Officer, Kentucky Housing Corporation*** (ph. 564-4982).

V. ***GOALS AND TIMEFRAMES:*** The Governor's commitment to safe, decent, and affordable housing for Kentucky's families is a continuing one. Governor Patton is committed to maintaining current affordable housing legislation as well as pursuing additional housing solutions for Kentucky's families.

BUILDING SELF-SUSTAINING FAMILIES

3.10 Minority Action Initiative

I. ***CHALLENGE:*** To assist the minority community in realizing the benefits of economic expansion and to assist minorities in rising to levels of leadership in an effort to remedy past discrimination.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has been recognized by many in the minority community as the most responsive Governor in memory to minority concerns. In addition to his efforts on behalf of women (which are discussed in several other entries in this binder), the Governor has place a strong emphasis on bringing African Americans into positions of leadership in his cabinet, his personal staff, and through his administration. Governor Patton believes it is not enough to simply end discriminatory practices; instead, he believes the state must make a positive effort to remediate any identifiable past instances of discrimination. In an effort to address past discriminatory practices by state government, the Governor has launched an aggressive minority action initiative.

III. ***PROCESS AND APPROACH:*** Governor Patton has instituted a four-pronged strategy for identifying past instances of discrimination against minorities. First, in May 1999, he issued an Executive Order creating the Governor's Minority Business Affairs Council, which he attached to the Office of the Governor and charged with reporting to him periodically on ways the administration could be the most responsive to minority concerns. As a sign of his personal commitment, the Governor asked his then-legislative liaison, Leonard Gray, to take a new role as Executive Director of this Council and to help advise him personally on minority concerns. At present, this council is actively coordinating the efforts of state government to help minorities in matters of identifying potential state employment possibilities and business opportunities.

Second, the Governor asked the Finance and Administration Cabinet to undertake a voluntary initiative to help partner contractors that have been awarded large state capital construction projects with potential minority-owned firms that may be seeking work as contracting partners or subcontractors. The program is modeled on a voluntary one that was successful at the Metropolitan Sewer District of Louisville, and the state's effort is being personally overseen by the Secretary of Finance and Administration Cabinet.

Third, the Governor asked the Finance and Administration Cabinet to solicit bids and award and contract for a disparity study – or a Croson study. A contract was awarded to an Atlanta law firm in 1999, Griffin and Strong which delivered its findings to the state government earlier this year. Among the recommendations of the firm were that government should strive to increase the availability of minority contractors among program cabinets and increase its outreach programs to obtain responses to requests for proposals from these agencies. In addition, the report recommended that minority contracting be centralized in the office of the Governor. In particular, it was recommended that the Transportation Cabinet and Finance and Administration Cabinet coordinate its minority contracting opportunities through the Governor's Office. Governor Patton is taking steps to address the recommendations of the Griffin and Strong study.

As a result of the U.S. Supreme Court's decision in City of Richmond v. Croson, state governments must show clearly identifiable historic and past discrimination in order to justify minority set aside programs in contracting. The federal courts have held states to a very strict standard in this regard and have sought particularity in all contracting areas. As a result, it is necessary for states to undertake studies such as this if they are going to consider a potential minority set aside program. The results of this study will form the basis of future legislation on this important action.

Fourth, the Governor has personally asked his cabinet to consider qualified minorities for new positions and promotions within their respective agencies. This, coupled with his strong record of supporting the Governor's Minority Management Training Program within state government and placing its graduates in positions of responsibility, is serving as a vehicle for getting more minorities involved in higher levels of state government. When Governor Patton was sworn into office in December of 1995, minorities accounted for approximately 7.09 percent of employees in the Executive Branch. As of December 2001 this had increased to 7.82 percent.

Additional efforts to expand minority participation include:

- Servicing the Minority Communities was implemented in March 2002. A partnership with the Louisville Defender provides an opportunity for state government to give the minority communities in the Commonwealth information about existing or new state government programs, services, and resources that are useful to them.

- Implementation of the Governor's Statewide Contractor Training Program in conjunction with the Transportation Cabinet's Office of Minority Affairs.

The planning committee was formed in June 2002 with the first training session to begin by the end of 2002.

- A preliminary process for E-Government will be established through the Governor's Office of Minority Affair's website—seeking to improve access to services for small, minority, and women-owned businesses which will determine electronic needs for services, resources, service providers, registration, associations, training, and provide advance review of state contracts.

- The Kentucky Governor's Leadership Alliance for the Interests of Minorities and Women, Kentucky International Convention Center – Louisville will be held on October 23, 2002.

IV. ***LEADERSHIP AND CONTACT PERSON: Denis Fleming, General Counsel to the Governor*** (ph. 564-2611); ***Leonard Gray, Executive Director, Governor's Minority Business Affairs Council*** (ph. 564-2611); ***Mike Alexander, Deputy General Counsel to the Governor*** (ph. 564-2611).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to making more opportunities available to minorities is an ongoing one. The Governor will continue to take steps to address the concerns of minority contractors and increase the availability of work in that regard.

BUILDING SELF-SUSTAINING FAMILIES

3.11 Insurance Consumer Protection Initiatives

I. ***CHALLENGE:*** To ensure that the public is well served through a sound and competitive insurance market and to ensure that the insurance laws and regulations of the Commonwealth of Kentucky are appropriate for the protection of the public.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton believes in creating an environment in the various insurance markets in Kentucky which allows private industry, through free market processes, to develop and sell its products. However, protecting the public from any potential fraud or abuse must counterbalance allowing a free market to operate. In particular, Governor Patton is determined to prevent the most vulnerable in our society from being victimized by promoting aggressive consumer protection laws and initiatives that will serve the insurance-buying public.

III. ***PROCESS AND APPROACH:*** At Governor Patton's request, the Kentucky Department of Insurance, in addition to designing and implementing Kentucky Access, a high-risk health insurance pool to serve medically high risk individuals, remains focused on enhancing competition and choice in the individual market by encouraging additional carriers to return. This initiative is designed not only to restore stability to the individual health insurance market, but to do so while maintaining essential consumer protections of guaranteed availability, renewability, and limits on pre-existing conditions. In addition to significant pieces of legislation passed in the 2000 Regular Session of the General Assembly, Governor Patton requested that the Department of Insurance develop a legislative package for the 2002 Regular Session of the General Assembly. Major pieces of this legislation package passed, including bills that strengthen consumer protection laws in the areas of coverage for mastectomies, utilization review, external appeals, prompt payment of claims, health discount plans, long-term care policies, and conversion and continuation plans. These bills, taken with prior Patton administration bills, strengthen consumer protection for insurance consumers in Kentucky.

- **Coverage for Mastectomies; Utilization Review, Internal Appeals, External Appeals; Prompt Payment of Claims (Senate Bill 38)**

  Some of the most meaningful consumer protection measures enacted by states involve the rights of consumers to have benefit decisions by insurers reviewed using an independent, expedited, local, and responsive process. To this end, Senate Bill 38 amends various provisions of utilization reviews, internal appeals, and external appeals requiring insurers to provide timely determinations, timely notice of decision and timely appeals. Along with provisions dealing with the prompt payment of claims by insurers, Senate Bill 38 strengthens existing consumer protection provisions.

Coverage for Mastectomies – This bill requires insurers to provide certain federally-mandated coverage of medical and surgical benefits with respect to a mastectomy.

Provider Contracting – The bill requires insurers to provide providers with specific fees for reimbursement of requested codes within 30 days of the request. This allows providers more information to determine whether to participate in health plans and promotes stability of provider networks for patients.

Utilization Review – The bill addresses various provisions of utilization review to ensure that utilization review agents are qualified, accessible and available during providers' working hours so that timely decisions and notices can be provided to insured's and providers of care.

Prompt Payment of Claims – This bill makes needed clarification to the prompt pay laws to tighten and streamline procedures for both insured's and insurers so as to improve the consumer protection nature of the "prompt pay" law.

- **Short-Term Nursing Home Policies; Long-Term Care Policies; Non-English Applications (Senate Bill 41)**

Short-Term Nursing Home Policies – This legislation increases insurance regulatory authority over short-term nursing home policies in order to extend similar consumer protections available in long-term care and other health insurance related policies. These consumer protections include standards for the disclosure of the terms and conditions of the policy, as well as loss ratio standards.

Long-Term Care Policies – This bill requires the Department of Insurance to promulgate administrative regulations establishing standards for premium rate practices and rate increases for long-term care benefits and incidental long-term care benefits.

Non-English Applications – Recognizing that our citizenry is becoming more diverse, the bill allows insurers to file applications in a language other than English.

- **Limited Health Service Organizations; Health Discount Plans (Senate Bill 146)**

  This bill establishes a new certificate of authority for limited health service organizations to provide limited health service benefit plans to enrollees with the same consumer protections as for other types of health insurance, such as required disclosures, network access and adequacy standards, and provider contracting and participation standards. The bill requires specific disclosures to consumers of health discount plans and requires contracts with each health care provider listed in conjunction with the health discount plan. Enhanced enforcement by the Office of the Attorney General is provided to enrollees of health discount plans.

- **Licensing; Surplus Lines Taxes (House Bill 165)**

  Producer Licensing – This bill makes changes to the licensing provisions to address recent federal interpretations of licensing reciprocity requirements, newly adopted amendments to the NAIC Model Producer Act, and uniformity among licenses. This will allow non-resident agents, or resident agents to be licensed in multiple states more efficiently and using reciprocal standards in an effort to streamline licensing procedures while maintaining valuable protections for consumers.

- **Health Benefit Plans; Kentucky Access; Extension of Benefits, Continuation Coverage and Conversion Coverage; (House Bill 391)**

  This bill clarifies several provisions relating to health insurance specifically related to those laws that provide for an insured's right to conversion or continuation coverage when group coverage is terminated.

IV. ***LEADERSHIP AND CONTACT PERSONS: Janie Miller, Commissioner, Department of Insurance*** (ph. 564-6026); ***Glenn Jennings, Deputy Commissioner, Department of Insurance*** (ph. 564-6026); ***Sharon Clark, Director, Consumer Protection and Education Division*** (ph.564-6026).

V. ***GOALS AND TIMEFRAME:*** Governor Patton's commitment to assuring a fair and responsive insurance market is ongoing. State agencies are working to carefully monitor the implementation of the new legislation passed by the 2002 General Assembly.

BUILDING SELF-SUSTAINING FAMILIES

3.12 Health Department Support

I. ***CHALLENGE:*** To assure that local health departments have sufficient revenue to meet their statutory core public health mandates and their obligations to provide personal preventive services to eligible Kentuckians.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has long acknowledged the benefits of a strong state and local health department system. He has first-hand knowledge of public health from his tenure as Judge Executive in Pike County. The regulatory, communicable disease control, vital statistics and health surveillance, disaster preparedness, public health education, risk identification and reduction, and policy mandates of local health departments provide the infrastructure upon which health promotion and disease prevention activities stand. The family planning, prenatal, and child personal preventive services provided by local health departments are the clinical basis for any early childhood program. The early childhood development programs promote immunization, the use of folic acid, Healthy Start/Childcare consultation, Early Childhood Mental Health, Prevention of Early Childhood Oral Diseases, and Health Access and Nurturing Development Services (HANDS). They are successful prevention and early intervention measures to promote child development to full potential. The preventive health and cancer screening services available to adults have reduced the health risks to several groups of Kentuckians.

III. ***PROCESS AND APPROACH:*** In the budget Governor Patton presented to the General Assembly in 2000, he addressed several of the serious continuing shortfalls in the budgets of local health departments throughout the state. First, he increased funding for the local health departments by nearly $46 million statewide over the biennium, a gesture that was hailed by health professionals throughout the state. In addition to this $46 million, Governor Patton supported additional revenue enhancements for local health departments through the tobacco control program and training programs in core public health (totaling about $10.5 million over the biennium). Furthermore, the administration supported a fee adjustment for certain environmental health inspections through local health departments. This adjustment, based on the consumer price index had not been addressed in many years. The combined effect of these initiatives has increased revenue available to local health departments, reduced the impact of cost increases and provided revenue for services that were previously un-reimbursed.

The Local Health Department allocations for fiscal year 2002-03 include $1,948,600 for Healthy Start/Childcare, $1,057,200 for Folic Acid, and $10,830,600 for HANDS, and $2,620,600 for Tobacco Use, Prevention and Cessation from Tobacco Settlement Funds. Additionally, $10,880,400 federal share of Medicaid reimbursement for HANDS was allocated to local health departments. Local health department allocations also included $14,276,600 in General Funds and $31,939,200 in federal grants. This represents a total health department allocation of $73,553,200 for fiscal year 2002-03. Additionally, $1,000,000 is earmarked for Early Childhood Mental Health Initiatives. This brings together a partnership between our state Department for Public Health, Department of Mental Health/Mental Retardation Services, and our local community mental health centers.

For the second half of the biennium, $250,000 is planned to be allocated to the prevention of early childhood oral diseases through screening, education, health promotion, referral and application of preventive fluoride varnishes to the newly erupted teeth of infants by non-dental personnel.

In addition, it is worth noting that the Governor's (KIDS NOW) Early Childhood Initiative enhances the role of local health departments in assisting our children with development in their earliest years. First, the folic acid program will reduce the incidence of serious neurological birth defects (spina bifida) in children by ensuring that women of childbearing age can obtain a common B vitamin (folic acid) in an adequate dose and know the importance of taking it daily to prevent this defect. Use of folic acid among women of childbearing age has increased from 29 percent in 1997 to over 41 percent in 2000. From 1996 to 2000 there was a 35 percent decrease in the number of babies born with open spine defects in Kentucky. Kentucky is working hard to continue and improve upon this trend. Second, the HANDS program is an outreach program that will deliver prenatal and well child preventive services in the home setting to 4,900 families who volunteer to take advantage of it. Kentucky's home visited families show a lower number of physical abuse and neglect cases. The rate of physical abuse is 58 percent less when compared to those families who did not receive home visits. Child neglect is 62 percent less in home visited families. Home visited families also have a lower number of low birth weight and very low birth weight babies resulting in a significant savings of $4,776,000 in healthcare dollars a year. Infant mortality is the lowest since Kentucky began collecting this data. There were 6.9 deaths per 1,000 live births in 2000 compared to 9.2 deaths in 1991. Third, the Healthy Start in Child Care program enables local health departments to provide on-site technical assistance in nutrition, communicable disease control, and injury prevention in a variety of childcare settings. Eighty-two consultants have provided 4,843 consultations to caregivers of 103,000 children. Finally, there are increased resources to provide immunizations for underinsured children.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** **Marcia R. Morgan*, Secretary of the Cabinet for Health Services*** (ph. 564-7042); ***Rice C. Leach, M.D., Commissioner, Department for Public Health*** (ph. 564-3970).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to promoting health and preventing disease in all Kentuckians as a fundamental component of his program to improve our education and our economy.

BUILDING SELF-SUSTAINING FAMILIES

3.13 Kentucky Agency for Substance Abuse Policy (KY-ASAP)

I. ***CHALLENGE:*** To pursue the philosophy that tobacco in the hands of Kentucky's youth is a drug abuse problem and is a gateway drug that may lead to later drug and alcohol use and to promote the implementation of research-based strategies that target substance abuse by Kentucky's youth and adults.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton and the Office of Champions for a Drug Free Kentucky have been engaged in attempts to build anti-drug coalitions throughout Kentucky. That office, in partnership with the Cabinet for Health Services, Department of Mental Health and Mental Retardation, Division of Substance Abuse, applied for and received a $9 million federal State Incentive Grant in September 1997. The initiative was called the Kentucky Incentives for Prevention (KIP) project. Three major goals were addressed: 1) a reduction of substance abuse among 12- to 17-year old youth; 2) the establishment of a restructured process for coordination of planning, funding, and evaluation between state agencies that engage in substance abuse prevention; and 3) the development of a comprehensive strategic plan that local communities could emulate. The comprehensive strategic plan was adopted by the Governor in April 1999.

III. ***PROCESS AND APPROACH:*** The Kentucky Agency for Substance Abuse Policy (KY-ASAP) was created following the 2000 Regular Session of the General Assembly. The legislation was the result of collaboration between the Governor's Office and the General Assembly, and built upon the work of the Governor's KIP Project. The process is a coordinated approach to planning, funding, and evaluation grounded in the use of research-based practices employed after the development of a comprehensive community prevention strategy. It calls for local planning and coordination boards to be established in every county, or multiple groups of counties, in the state. Each local board will do a thorough needs assessment and draft a strategic plan to address the issues identified in the assessment process. The KY-ASAP office coordinates training and technical assistance for communities in writing and implementing their strategic plans. This initiative is funded by allocations of the Phase I-Tobacco Settlement as well as General Fund appropriations.

IV. ***LEADERSHIP AND CONTACT PERSONS: Larry Carrico, Executive Director, Kentucky Agency for Substance Abuse Policy*** (ph. 564-8262).

V. ***GOALS AND TIMEFRAME:*** Community-based planning processes will be in place in every county of the state by December 2003.

BUILDING SELF-SUSTAINING FAMILIES

3.14 Improving Services to Individuals with Mental Disabilities

I. ***CHALLENGE:*** To assure a quality of life and opportunity for every Kentuckian by building the capacity of communities to provide services and supports for individuals with mental disabilities.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has had a long-standing commitment to improving the quality of life of Kentucky's citizens, and has focused special attention on Kentucky's most vulnerable citizens: children and adults with mental disabilities.

Having become acutely aware of the crisis that many individuals and their families are facing, Governor Patton, in partnership with bipartisan legislative leadership, has devoted significant effort to bring about change in Kentucky's system. As a result of recent funding efforts by Governor Patton and the General Assembly, for the first time Kentucky is spending more dollars for community services than for facility services.

With appropriate, individually determined services and supports, most of the individuals with mental retardation or other developmental disabilities can live in the community, engage in meaningful work, and enrich everyone's lives through their presence. Many are receiving the supports they need from their families and school systems.

During the 2000 Regular Session of the General Assembly, House Bill 144 was passed which established the Commission on Services and Supports for Persons with Mental Retardation and Other Developmental Disabilities. In addition to state agencies, members of the Commission include self-advocates, family members, public and private providers, and business leaders. The mandate of the Commission, under the direction of the Secretary of the Cabinet for Health Services, is to advise the Governor and General Assembly regarding service needs, and to develop a ten-year plan for addressing those needs. The Commission's Plan, "From Dreams to Realities for Quality and Choice for Individuals with Mental Retardation and Other Developmental Disabilities" was submitted to Governor Patton and the General Assembly on April 17, 2001. The top priorities set by the Commission include:

1. Reduce or eliminate the Supports for Community Living (SCL) waiting list over a ten-year period.

2. Develop, increase and improve access to the following services and supports: Day/Community Habilitation, Supported Community Residences, Accessible Transportation, Respite Services, Recreation, Behavior Supports, Employment/Volunteerism, Transition from Birth through Entire Life Span, Assistive Technology, and Other Support Services.

3. Include family members, persons with mental retardation and other developmental disabilities and advocates in quality initiatives and monitoring activities at the state and local/regional levels.

4. Implement self-directed funding so that individuals and families have greater control over the money available for their supports.

5. Assure that individuals and their families are fully informed about the options for services and supports that can be made available to them.

III. ***PROCESS AND APPROACH:*** The Governor believes that the Commonwealth needs a system of supports and services that will enable people with mental retardation to live safely and be productive members of their communities. He dramatically demonstrated that commitment by including an additional $50 million for mental retardation support services in his 2000-2002 Executive Budget. These funds served an additional 500 individuals, including everyone on the waiting list who was in an emergency situation due to the sickness or death of their caregiver. This funding and supporting legislation was identified by Governor Patton and interested legislators as the first step in moving Kentucky forward. The second step was to fund another 500 individuals during the fiscal year 2004 biennium. In spite of revenue shortfalls, the Governor and the legislature have remained steadfast in their support of this expansion.

An annual survey is conducted on individuals who are seeking services through the Supports for Community Living program. Survey results reveal that 64 percent of the individuals seeking services are living with their family or other relatives; 73 percent cite their mother as the primary caregiver; and 61 percent have a case manager. Before the funding became available, 30 percent of caregivers of individuals waiting for services were over the age of 60. Because of the initiatives cited above, funding has gone to support those most in need; and currently, this percentage has been reduced to 24 percent. Also, 85 percent of the respondents to a 2001 survey of those receiving services indicated that they were happy with their lives.

Also, in the 2000 General Assembly, House Bill 843 was passed, creating the Commission on Services and Supports for Individuals with Mental Illness, Alcohol, and other Drug Abuse Disorders and Dual Diagnoses. Based on regional assessments of need, a ten-year plan was developed and submitted to the Governor and the General Assembly. The Governor's support of this planning effort and his commitment to increasing the number and quality of community services to individuals with these disabilities was demonstrated by several funding increases.

- Expansion funds ($2 million in fiscal year 2002-03) are being made available for 11 new crisis stabilization units. This will complete the statewide network of 14 adult and 14 child units. The need for this network was identified in legislation passed in 1994; and these funds will enable the community mental health/mental retardation boards to achieve this longstanding goal.

- Expansion funds ($1.1 million in fiscal year 2002-03) are being made available for 26 individuals with complex needs in state psychiatric facilities. These funds will be used to provide the necessary supports to enable them to move from the hospital to the community.

- Expansion funds ($1 million in fiscal year 2002-03) are being made available for an early childhood mental health specialist in each of the 14 community mental health center regions. This initiative is evidence of the Governor's appreciation of the importance of emotional and behavioral health to the overall health and well being of young children.

- Additional funding ($275,000 in fiscal year 2002-03) has been provided to improve our responses to individuals with mental illness who come into contact with the criminal justice system. These funds will be used to train and provide consultation to jail staff on issues related to screening and serving people with mental illness.

- Finally, funding is being directed to a specialized dental clinic that will serve as a teaching/training center for dentists. It also will provide a setting for state-of-the-art clinical services to individuals who, because of their disability, have had limited or no access to dental care.

(Note: Each of the expansion items contemplate additional funds in fiscal year 2003-04 as were included in House Bill 269 enacted in the 2003 Regular Session of the General Assembly.)

This level of additional support for people with disabilities in a time of budget reductions is a tribute to Governor Patton's effort to enhance the quality of life of every Kentuckian.

IV. ***LEADERSHIP AND CONTACT PERSONS: Marcia R. Morgan, Secretary of the Cabinet for Health Services*** (ph. 564-7042); ***Margaret Pennington, Commissioner, Department for Mental Health and Mental Retardation Services*** (ph. 564-4527).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to building on the foundation laid during the 2000 and 2002 legislative sessions. The strengthening of Kentucky's capacity to serve its citizens with disabilities and their family members will continue throughout his administration.

BUILDING SELF-SUSTAINING FAMILIES

3.15 Medicaid Management Initiatives

I. ***CHALLENGE:*** Declining revenues, a return of double-digit health care inflation and increasing Medicaid caseloads have combined in Kentucky, and virtually every other state, to produce significant cost containment challenges and budget imbalance. In the face of these challenges, Kentucky's Medicaid program has continued to provide a full range of services through innovations in management and structure of the Medicaid program aimed at cost containment and efficiency. Despite achieving recurring costs savings totaling over $400 million, Medicaid Benefits still faces a structural imbalance in fiscal year 2004-05 of between $200 million and $400 million.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton's position has been to achieve savings through utilization management and program integrity in order to avoid or delay cuts in services or rates to providers as long as possible.

III. ***PROCESS AND APPROACH:*** In March 2001, Governor Patton created a Medicaid Steering Committee to identify and implement cost containment measures in Kentucky's Medicaid program. The Steering Committee first recognized that costs of the Medicaid pharmacy program had been rising at a significant rate each year. Pharmacy has become the largest component of Medicaid spending, surpassing nursing facilities and hospital services. For example in 2001, the State of Kentucky spent $45 million on just one class of drugs, proton pump inhibitors—an amount equal to what is spent for dental care in Medicaid statewide.

The Medicaid Steering Committee recommended a three-pronged approach to begin dealing with pharmacy spending: 1) obtain top-notch clinical input to assess and compare drugs in terms of safety, efficacy and cost and then to require prior authorization for those recommended; 2) establish reasonable reimbursements for pharmacies, for both ingredient and dispensing fees; and 3) establish a modest co-payment for prescriptions to help reduce the state's cost and to have recipients participate in cost-sharing for Medicaid.

Working with legislative leadership, House Bill 103 was enacted to establish a process for development of a preferred drug list for Medicaid. House Bill 103 affirmed the 14-member Pharmacy and Therapeutics Advisory Committee, which provides advice on the Medicaid drug formulary to the Governor, Secretary of the Cabinet for Health Services, and the Medicaid Commissioner. This Committee, consisting of physicians and pharmacists, is appointed by the Governor and charged with determining safety, efficacy and cost of prescription drugs. This initiative allows the Cabinet, using the Committee recommendations, to make appropriate choices regarding the availability of drugs with and without prior authorization, as well as durational and step therapy issues to assume maximum outcomes.

Another issue was the existing statute regarding pharmacy-dispensing fees, which, as written, was prescriptive and would have required Kentucky to pay the highest dispensing fee in the nation. House Bill 170 was introduced to give permissive authority to the Cabinet to establish reasonable dispensing fees, taking into account costs derived from a study to be conducted every three years; as well as the dispensing fees paid by other state Medicaid departments and those paid in Kentucky by private insurance. This initiative accomplishes an immediate cost savings by removing the automatic increase in dispensing fees and provides an effective mechanism for decision making in the future.

With House Bill 283, Kentucky joined other states across the nation in establishing a new cost-sharing component for Medicaid prescription drugs. Since Federal law permits a co-payment of up to $3.00 per prescription except for certain categories of recipients, it was decided that a more modest co-payment of $1.00 per prescription made sense as a starting point for Kentucky. The statute exempts children, pregnant women, and individuals in institutions. The pharmacy co-payment permits a $1 reduction in dispensing fees paid Medicaid, and also, for the first time, allows for a sharing of responsibility as to the cost and utilization of prescription and over-the-counter drugs by the Medicaid population.

Additional pharmacy initiatives undertaken were: 1) a generic-required initiative; 2) reduction of payments for drugs to Average Wholesale Price (AWP) minus 12 percent; 3) improving drug rebate recovery for drugs dispensed through the physician's program; 4) establishment of system edits to ensure drugs covered by Medicare are not paid for by Medicaid; and 5) implementation of a state MAC (maximum allowable cost) for generic drugs which have not had a federal upper limit established.

The combined savings of all pharmacy initiatives is $131 million annually. Thus, between fiscal year 2001-02 and fiscal year 2002-03, at a time when pharmacy costs grew at a rate of 16.9 percent annually, Kentucky's growth in the Medicaid pharmacy program was only 9.6 percent. Prior to fiscal year 2001-02, Kentucky's Medicaid pharmacy program was growing in excess of 18 percent annually.

The Medicaid Steering Committee also made recommendations aimed at cost-containment in other areas of Medicaid that have been successfully implemented with the Governor's support.

The Cabinet made a concerted effort to combat the Medicaid budget imbalance by fully accessing all federal funds available through increased cost sharing of Medicaid programs by administering state agencies. Intergovernmental transfers are aggressively pursued as a way to do this, and have resulted in $161 million in fiscal year 2001-02, $161.6 million in fiscal year 2003-03, and a projected $185 million in fiscal year 2003-04.

Other key strategies employed for cost-containment were: assuring that only those eligible for services are receiving services through in-person interviews and other measures; managing utilization and medical necessity; eliminating cost-based Medicaid reimbursements in favor of fixed fee reimbursements; developing other areas for co-pays; cost avoidance through edits/audits; and maximizing estate recovery.

Cost-containment actions taken in the Medicaid program are saving increasing amounts for Kentucky. In fiscal year 2001-02, there were 14 cost-containment actions implemented resulting in a savings of $160 million for that year and recurring annual savings of $138 million. In fiscal year 2002-03, there were an additional 43 cost-containment actions resulting in a savings of $91 million for that year and a recurring annual savings of $261 million. The projected total recurring annual savings for fiscal year 2003-04 is $419 million.

III. ***LEADERSHIP AND CONTACT PERSONS: Marcia R. Morgan, Secretary of the Cabinet for Health Services*** 564-7042; ***Mike Robinson, Commissioner, Department of Medicaid Services*** 564-4321, ext. 3157.

V. ***GOALS AND TIMEFRAME:*** All pharmacy initiatives and most cost-containment initiatives were out of development and in varying stages of implementation by the end of state fiscal year 2002-03. The Governor continues his commitment to building on the foundation laid during the past year. The strengthening of Kentucky's program efficiency and capacity to serve its citizens will continue throughout this Administration.

BUILDING SELF-SUSTAINING FAMILIES

3.16 Delinquent Child Support Enforcement

I. ***CHALLENGE:*** To increase child support collections, exceed the national average in paternity establishment, and enforce collection of current child support.

II. ***GOVERNOR PATTON'S POSITION:*** Throughout Governor Patton's administration, programs that protect and support children have been the top priority. New laws have been enacted since 1996 that have made it much more difficult for those who do not support their children to evade that responsibility. Automated technologies have been deployed, designed to find offenders, locate assets, and collect delinquent support.

III. ***PROCESS AND APPROACH:*** The Division of Child Support plays an intricate role in successfully meeting the needs of Kentucky Families. Child Support staff work closely with Family Support and Protection and Permanency staff to ensure that child support is a key player in providing comprehensive services to families. The Commonwealth is committed to effectuating necessary changes to enhance performance, resulting in greater child support collections for the children of Kentucky.

Child Support collections increased to $310 million fiscal year 2002-03, an increase of $14 million over fiscal year 2001-02. Establishing paternity and support is a cornerstone to collecting child support and achieving family self-sufficiency. Since 1996 Kentucky's ratio of children born out of wedlock with paternity established has increased 26 percent; from 49 percent in fiscal year 1995-96 to 76 percent in fiscal year 2001-02. Child support orders established have increased by 19 percent from 42 percent in fiscal year 1995-96 to 63 percent in fiscal year 2002-03.

Collection initiatives since 1996:

<u>Automated Wage Assignments</u>

- Wages automatically deducted from a delinquent payer's wages, enacted 1998.

<u>Automated Financial Institution Data Match (FIDM)</u>

- Bank accounts and other financial resources identified through an automated match of delinquent child support accounts, enacted 1998.

Authority to revoke driver's, professional, and sporting licenses

- Authority to revoke driver's licenses, professional and sporting licenses. Driver's licenses revocation has been particularly effective collection remedy, enacted 1998.

Centralized Collections

- Centralized collection enacted in 1998, requires all wage assignments to be paid to the Child Support Program for disbursement. This makes it much simpler for employers to process wage assignments in a timely fashion.

Voluntary Paternity Establishment Process

- Voluntary Paternity Establishments processes were enacted in 1998, which give parents a quick method to establish paternity of a child.

In-Hospital Paternity Establishment Process

- In-hospital Paternity establishment process enacted 1998, allows parents to voluntarily establish paternity upon the birth of a child.

New Hire Reporting

- New hire reporting enacted in 1998, requires employers to report new employees to child support resulting in wage assignments.

Statewide Registry of Child Support Orders

- Statewide registry of child support orders, enacted in 1998 requires all child support orders be registered with the Child Support Program.

Uniformed Interstate Family Support Act (UIFSA)

- UIFSA allows for a quicker more consistent process to establish and collect support in Interstate cases, enacted 1998.

The Attorney General's office publicizes delinquent payers, provides legal support, and facilitates service of subpoenas, summons, and warrants.

- Child Support reports cases to the Attorney Generals office to publicize delinquent payers, enacted in 2000.

The Revenue Cabinet utilizes automated technology to seize assets from bank accounts.

- Enacted in 2002, the Revenue Cabinet in collaboration with the Child Support Program utilizes automated technology to seize assets from bank accounts.

Access to Fish and Wildlife Database

- Recently, the Department of Fish and Wildlife has provided access to sporting license database which will aid in location efforts and suspension of sporting licenses in order to collect child support.

Tort claims through the Finance and Administration Cabinet.

- Enacted in 2000, a process to collect tort claims, through the Finance and Administration Cabinet will ensure delinquent child support is paid first

In an effort to provide services as efficiently and comprehensively as possible, all duplication in the case referral process was removed by focusing all local service delivery and case processing to Contracting County Attorneys and Special Prosecutors. State local staff focus on maintaining and facilitating quality of service delivery.

V. ***LEADERSHIP AND CONTACT PERSONS: Viola P. Miller, Secretary of the Cabinet for Families and Children*** (ph. 564-7130); ***Dietra Paris, Commissioner, Department for Community Based Services*** (ph. 564-3130); ***Steven P. Veno, Director, Division of Child Support Enforcement*** (ph. 564-2285).

IV. ***GOALS AND TIMEFRAME:*** Ongoing efforts to produce equity and funding between Contracting County Attorneys, Friends of the Court, and Special Prosecutors need to continue in fiscal years 2004-05 and 2005-06.

- Child Support paternity establishment rates, which are above the national average, are expected to continue to improve in fiscal year 2004-05 and 2005-06.

- Child Support collection rates need to increase above the national average in fiscal year 2004-05.

- More focus needs to be placed on enforcement of medical assistance establishment. Federal Guidelines to be implemented in fiscal year 2004-05.

- All of the aforementioned goals require ongoing support and commitment by the Governor, Legislature, Cabinet Secretary and Program Director to continue with collaborative efforts necessary for achievement.

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Strengthening Efficiency and Operations of Government

Strengthening Efficiency and Operations of Government

- Establishment of State Budget Principles
- EMPOWER Kentucky
- Building a Technology Infrastructure in State Government and Schools
- Tax Fairness
- Personnel Reforms
- Promoting and Providing Diversity
- Kentucky Employee Advisory Council
- General Fund Revenue Adequacy

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.1 Establishment of State Budget Principles

I. ***CHALLENGE:*** To ensure that the Commonwealth continues to maintain a fiscally sound approach to budgeting and financial management by establishing specific principles upon which financial management decisions are based.

II. ***GOVERNOR PATTON'S POSITION:*** This initiative is fundamental to providing a solid and sound financial structure to allow state government to be able to address the significant policy challenges which will confront the Commonwealth.

When the Governor took office in December 1995, Kentucky faced the same fiscal problem that the past four Governors had all faced. The state had used one-time resources to fund ongoing programs, resulting in a structurally imbalanced budget. Even though the state had a substantial cash surplus, it was over-committed on a recurring basis. Unless the state's budgetary practices were changed, existing cash surpluses would have been depleted over time and a deficit environment would emerge. Moreover, it would not be possible to initiate major, new policy initiatives the Governor felt were needed to move Kentucky forward.

Because the Governor quickly realized that this situation was not sustainable, he developed a fiscal framework to strengthen the financial condition of the Commonwealth. The four key components of the Governor's plan include: 1) constructing biennial budgets on conservative, independent revenue forecasts; 2) maintaining a structurally-balanced budget where ongoing expenditures do not exceed ongoing revenues; 3) building and maintaining an adequate Budget Reserve Trust Fund (BRTF) balance; and 4) investing in a fiscally-responsible and logical long-term capital improvement program.

Kentucky began to experience a significant downturn in economic activity and a revenue shortfall November/December of 2000. As a result, Kentucky had to deal with an approximate $180 million budget shortfall in fiscal year 2000-01. In fiscal year 2001-02 the total budget shortfall for the fiscal year was approximately $700 million. Governor Patton made a significant policy decision with how to deal with the management of the budget shortfalls in both fiscal year 2000-01 and fiscal year 2001-02. Governor Patton elected to avoid draconian programmatic cuts as have been experienced in other states. The Governor elected to maintain programmatic expenditures, particularly in the highest priority areas such as education. As a result, the state has been forced to utilize one-time cash balances, including the entirety of the BRTF. In addition, the state has managed through the significant revenue and budget shortfalls by maximizing the efficient operation of government. The benefits of EMPOWER Kentucky have provided significant process savings that have assisted in the management of these shortfalls.

One non-publicized component of the EMPOWER Kentucky program that has been significant in generating additional investment income and debt service savings to the Commonwealth is the cash management initiatives implemented in House Bill 5 in the 1997 Special Session. Better management of the state's balance sheet – both assets and liabilities – have reaped significant savings that have been an integral part of the budget-balancing plan.

In addition, significant management efficiencies have been undertaken, including control of overtime (approximate savings of $19 million per year), reduction in the size of the state workforce through attrition, reductions in the state motor fleet, reductions in travel, printing, utilities, leasing, and constrained spending on basic operating expenditures such as cell phones, travel, publications, etc., which have generated significant savings.

As a result of the use of one-time monies and efficiencies, program reductions have been avoided in education. It is significant that, through fiscal year 2001-02, Kentucky managed its way through $900 million in budget adjustments without cutting K-12 education. It was necessary to cut higher education by 1.9 percent. The strategy that the Governor developed to manage through this period of time without draconian program cuts resulted in an approximate 5 percent cut to the rest of government. Again, through a combination of process and management efficiencies, in only a few areas have there been significant programmatic impacts. As a result, Kentucky has not had to lay off employees during these difficult times as has been the case in other states. Kentucky has not been forced to close prisons, close parks, or make other such budget adjustments.

The result, however, has been that we have a structurally imbalanced budget and we have depleted our BRTF – two principles that have been critical to the Governor's fiscal management program. We have continued to adhere to the principles of using conservative estimates developed by the Consensus Forecasting Group and developing a conservative, rational debt management program. In fact, in the proposed 2002-03 and 2003-04 fiscal year budgets, the level of debt recommended by Governor Patton would be the lowest level in over 22 years. In addition, a resumption of normal economic growth would have originally allowed for the budget to be back in structural balance in fiscal year 2004-05 with capacity for 3.1 percent expenditure growth. The enacted budget, House Bill 269, for fiscal years 2002-03 and 2003-04, did not raise revenues to address the budget needs of the Commonwealth, as was proposed by Governor Patton. Instead, most agency budgets were reduced by 2.6 percent in fiscal year 2002-03 from the reduced fiscal year 2001-02 levels and then straight-lined for fiscal year 2003-04. The exceptions to this reduced funding strategy were K-12 education, human services, and several public safety related budgets.

The enacted budget, while balanced on a cash basis, is structurally unbalanced by approximately $400 million when consideration is given to both one-time resources used and to recurring expenditures which were not funded in the fiscal year 2003-04 budget.

With respect to the BRTF the fiscal years 2002-03 and 2003-04 enacted budget provides for a direct appropriation in fiscal year 2002-03 of $5 million and in fiscal year 2003-04 of $26 million. However, actual amounts deposited into the BRTF are subject to change depending upon the fiscal condition of the state.

With respect to the level of authorized debt, the enacted budget provides for $829 million, which results in approximately 6.28 percent of state revenues being used to support debt service. The Commonwealth has utilized 6 percent as a reasonable target for several biennia as an affordable and prudent amount of debt service to support state infrastructure.

III. ***PROCESS AND APPROACH:*** Governor Patton remains committed to the financial management principles of:

1. Use of conservative forecasts by the Consensus Forecasting Group;

2. Maintaining a structurally balanced budget;

3. Building and maintaining the BRTF; and,

4. Implementing a rational debt management program.

The achievement of two of these four goals needed to be delayed in the short term to avoid draconian programmatic cuts. Any surplus funds that may result at the end of fiscal year 2002-03 and/or fiscal year 2003-04 are to be deposited to the BRTF. This language recommended by Governor Patton reinforces his recognition and commitment to rebuilding the BRTF. The state ended fiscal year 2002-03 with a $75.7 million revenue shortfall, but due to strong financial management and the receipt of federal fiscal relief for states, was able to end the year with a surplus of $23.8 million. This amount has been deposited to the BRTF to serve as a buffer against future projected revenue shortfalls. The fiscal outlook of the state will determine whether or not any such funds are available in fiscal year 2003-04 or that any other opportunities will exist for restoring a structural balance in the current biennium or rebuilding the BRTF.

IV. ***LEADERSHIP AND CONTACT PERSONS: Mary Lassiter, Acting State Budget Director, Office of State Budget Director*** (ph. 564-7300).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to adhering to the fiscal management and budgeting principles that have under girded each of his state budgets. However, not at the expense of draconian programmatic cuts that would have a significant impact on the people of Kentucky. The Governor remains committed to working to achieve a structurally balanced budget and replenishing the BRTF.

EMPOWER Kentucky

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.2 EMPOWER Kentucky

I. ***CHALLENGE:*** To improve the efficiency of government by redesigning key business processes throughout state government in a manner that improves service delivery to citizens while also generating significant annual savings and revenue to the Commonwealth and its taxpayers.

II. ***GOVERNOR PATTON'S POSITION:*** When Governor Patton first took office, he recognized that projected funding needs for the foreseeable future exceeded projected revenues. He developed a creative way to use one-time available funds to create recurring savings and revenue. He envisioned the redesign and streamlining of key business processes in state government that could generate savings for the strategic needs of the Commonwealth, and improve the delivery of services to citizens and businesses. Governor Patton called this initiative EMPOWER (Empowering Our Workers with Effective Resources) Kentucky. For the first two budget cycles of his term, he funded this initiative primarily with one-time surplus funds to redesign key processes in state government.

EMPOWER Kentucky was to increase revenues and dollar savings through the efficient redesign of these key business processes. The original projection was to add an additional $550 million to the state General Fund by fiscal year 2003-04. The return to date is reported below.

FY 1997 Actual	**FY 1998** Actual	**FY 1999** Actual	**FY 2000** Actual	**FY 2001** Actual	**FY 2002** Actual	**FY 2003** Estimated	**FY 2004** Estimated	**TOTAL**
$5.7	$31.6	$61.3	$65.3	$87.5	$107.8	$88.2	$92.0	**$572.4**

The increase in return has already exceeded projected returns by $22 million. In addition, $98 million was returned to local governments.

In summary, EMPOWER Kentucky has already returned to the state General Fund the $136.6 million that has been invested. Approximately $116.2 million of the $136.6 million in the Technology Trust Fund has been expended to date by EMPOWER Kentucky.

III. ***PROCESS AND APPROACH:*** The Governor's approach to redesigning key business processes is the most ambitious effort of its kind ever undertaken by any state. Other governments have redesigned or re-engineered particular processes or cabinets, but what makes EMPOWER Kentucky so unique is that it is a comprehensive approach to continuous improvement that spans across cabinet lines.

In order to coordinate the acquisition and implementation of new technology that is so critical to redesigning government, the Commonwealth also hired a Chief Information Officer (CIO) to oversee a strategic state technology plan.

Building on the accomplishments achieved by cabinets working with EMPOWER Kentucky, Governor Patton institutionalized his vision of "continuous improvement" by challenging agencies to build those improvement efforts into their comprehensive strategic planning efforts. In the late Fall of 2001, Governor Patton transitioned EMPOWER Kentucky to the *Center for Excellence in Government* (CEG), as a permanent office, to support state government's efforts in continuous improvement as a standard business practice, value, and philosophy. CEG has continued to spearhead efforts to achieve organizational excellence through continuous improvement, while providing on-going support as cabinets implement their strategic plans and measure results.

The Governor's philosophy for the Center is that:

- Kentucky's citizens expect and should receive governmental services that are unmatched in the nation in terms of their effectiveness, efficiency, and citizen-centered focus. Governor Patton has established the Center as the focal point for leading and supporting government-wide changes when such changes will assist agencies in providing more excellent services to Kentucky citizens. Furthermore, he also believes that all government employees are valued public servants who must be vested with the authority and equipped with the tools and resources to continuously improve services to citizens.

The Center's redesign and re-engineering capacity continues to be institutionalized in state government. Many state employees have been trained in Kentucky's redesign model and have the skills to advance continuous improvement within their own agencies.

The following is a brief synopsis of some of the major EMPOWER Kentucky CEG programs and some of their key accomplishments to date:

Strategic Planning

The Governor directed the EMPOWER Kentucky CEG to assist the State Budget Director in the implementation of the strategic planning provisions of House Bill 502 of the 2000 General Assembly. The bill required each Cabinet to submit a strategic plan with its corresponding budget request. The strategic planning process has helped agencies to manage change, focus on the future, develop a coherent and defensible basis for active decision-making, solve major problems and improve organization performance, and achieve long-term, sustainable results.

Each of the cabinets completed their initial strategic plans in June 30, 2001, with final plans submitted electronically with budget requests in the Fall of 2001. Cabinets and agencies have been working since that time to further refine strategies and action plans to achieve their goals and objectives.

To further reinforce the importance of "managing to the plan," the Governor's legislative agenda for the 2002 General Assembly included a companion law, KRS 48.810, requiring agencies to submit annual progress reports and biennial updates to their strategic plans. In the Fall of 2003 agencies will once again submit updated strategic plans with their budget requests.

Personnel Management (Personnel Cabinet)

Before EMPOWER Kentucky CEG, the management of the state personnel system was an intensely bureaucratic process that relied too heavily on paper processing and moved too slowly to truly serve current and potential state employees. As a result of this effort, statewide job vacancy listings of all competitive and promotional positions in state government are now posted on the Internet and easily accessible. An electronic register is now available for all agencies. All job classifications and salary ranges are also posted on the Internet. Also, applications for state jobs can now be done through Personnel's web site, which currently receives over 200,000 inquiries monthly. A new web-enabled Register/Employee Records system, which allows immediate electronic access and processing of personnel records, was implemented in August 2000.

More recent developments have allowed applicants for jobs to be approved and placed on the system electronically and on-line testing allows over 60,000 applicants to be approved, tested, graded, and given the results electronically. "ClickHR," Kentucky's Employee Self Service System, is a web-based system that allows employees instant access to their personnel information, such as health insurance coverage, life insurance coverage, pay stub information, and leave balance totals.

Simplified Administrative Services (Finance and Administration Cabinet)

As the central purchasing and financial management agency of the Commonwealth, the Finance and Administration Cabinet has an enormous responsibility for overseeing state contracting, managing the assets of the state, and administering to the needs of all state government. Naturally, the functions of this cabinet were ripe for re-engineering in a manner that could yield significant annual savings to the Commonwealth. As a result of this effort, the Cabinet now has on-line bidding of contracts that eliminates waste, paper and time. The state now has procurement cards that allow for on the spot purchasing of supplies and is implementing an on-line procurement process. Statewide purchasing contracts have been established for five major types of commodities, which have leveraged the Commonwealth's buying power. Furthermore, the state has created an Asset/Liability Commission to better manage the Commonwealth's financial assets and liabilities, and the state has closed over 20 warehouses, saving the Commonwealth significant funds. An enterprise-wide financial system including budgeting, accounting, purchasing, and general ledger is now in place. Finance is building the infrastructure for all state agencies' e-government/commerce efforts by implementing an integrated financial transaction process.

Simplified Revenue Systems (Revenue Cabinet)

As the Commonwealth's tax collection agency, the Revenue Cabinet is responsible for collecting a variety of taxes from Kentucky taxpayers. Before EMPOWER Kentucky, this process was laborious, time consuming, concentrated too heavily on paper-processing and had no capability for electronically matching different tax receipts from the same taxpayer. As a result of this effort, a tax-matching program has been designed which will allow the Cabinet to match tax records from each taxpayer. It is anticipated that this new technology-driven system will annually yield millions of dollars in enhanced revenues to the Commonwealth. A modernized system for managing remittance processing has dramatically improved processing time resulting in faster returns to our citizens.

EMPOWER Kentucky initiatives in the Revenue Cabinet to close the 'tax gap' have generated over $230 million in additional General Fund receipts since 1997. Moreover, with greatly improved property tax compliance programs, local taxing jurisdictions have received over $98 million over a five-year time span. The popularity of filing individual income tax returns electronically continues to grow at more than 20 percent per year. In 2001 more than 600,000 returns (more than 1/3 of all returns filed) were filed in non-paper formats. Refunds from electronically filed returns are now direct-deposited in taxpayer accounts in record time. New initiatives will soon include Internet filing of no-tax-due sales tax and withholding tax and expanded Interactive Voice Response (IVR) services.

Simplified Access to Commonwealth Services

Simplified Access is a combined effort involving the Cabinets for Families and Children, Health Services, and Workforce Development, and community partners throughout the Commonwealth. The goal of the Simplified Access project is to improve the delivery of health, employment, human services/benefits, and information to citizens of Kentucky.

Key accomplishments to date include the implementation of an on-line resource directory called, KyCARES.net, a web-enabled tool to simplify access to needed human, health and employment resources and services in and around Kentucky. KyCARES.net offers a screening tool to do a preliminary review for potential eligibility for various programs and further explains available services and provides information on how to access the services; the Employ Kentucky Operating System was implemented in Spring of 2002 as the state's first integrated workforce job matching system which allows someone to search for a job, create or change an on-line resume, create a job scout and register to receive other services; and in some settings social workers have been equipped with technology to implement virtual office tools and practices to better service their clients.

Transportation Delivery and Vehicle Titling and Registration (Transportation Cabinet)

Automobile dealers, motor carriers, and everyday drivers were well familiar with the former state system of titling and registration that included many paper forms and was too time consuming. As a result of EMPOWER Kentucky, the number of application forms for motor carriers has been reduced from twelve to one. Also, commercial trucks can now pay their taxes or update their inventory on-line.

Additionally, as part of Kentucky's efforts to transition recipients to work under the new federal welfare reform law, state government has established an integrated Transportation Delivery System to assist indigents who need to travel to a place of work. The state also saves money by using this system to transport Medicaid patients receiving medical care who formerly were reimbursed for most types of transportation regardless of cost.

Also, as part of this project, the state is updating the Kentucky Vehicle Information System (KVIS) to quickly access any needed information on vehicles registered in Kentucky as well as to improve its operations.

Simplified Regulatory (Natural Resources and Environmental Protection Cabinet, Department of Agriculture, Health Services Cabinet)

The work team leading this multi-agency effort addressed the time consuming and paper-intensive nature of state permitting and inspection procedures. Inspectors in the field have long had to travel back and forth between the office and inspection sites and have had to rely on paper records. As a result of EMPOWER Kentucky, the state has begun an ambitious effort to electronically permit and register regulated companies doing business in Kentucky. To date, electronic permitting processes are now in place for surface mining and field inspectors, utilizing portable computers to record and file reports, thus cutting down on filing and travel time. The Natural Resources and Environmental Protection Cabinet has also implemented a complaint tracking system to insure the appropriate record keeping and closure of every complaint.

The Cabinet for Health Services and the Department of Agriculture have also developed mobile computing systems to complete inspection processes in the field. Inspections of activities such as production plants, milk production farms, and weights and measures are now done in much less time.

Facilities Security (Justice Cabinet)

Under EMPOWER Kentucky, the Justice Cabinet has undertaken programs to install electronic security in a number of key state office buildings.

CURRENT INTIATIVES

Below are examples of the CEG projects that are currently underway.

Everyday Government

In July 2002, Governor Paul Patton adopted "*Everyday Government*" as his motto to springboard Kentucky's model for bringing information and services to our citizens. Governor Patton's e-government initiative has the following definition delineating his clear objective:

E-government is the interactive delivery of services and information via the Internet, touch-tone phone, and/or kiosk to businesses, citizens, and state employees through self-service business systems 24/7.

Kentucky will work toward a common platform to improve our citizens' online experiences, leverage citizens' trust, promote one secure website for Kentucky and integrate multiple applications, i.e., common financial transactions and on-line procurement.

CEG continues to support the cabinets as they revisit and improve their strategic plans. A partnership with the Governmental Service Center (GSC) has provided the cabinets with more access to on-call consulting, targeted training, and facilitation. Together, CEG and GSC are coordinating the cabinet-wide strategic planning process under the direction of the State Budget Office.

CEG is doing several things that will enable state government to manage for results. CEG is sponsoring learning events featuring nationally recognized experts in governmental performance to help improve the cabinet's measurement of their performance and progress. Annual progress reports are used not only for reporting progress, but also as learning tools to improve performance indicators and to adjust strategies and tactics.

CEG also stresses the need and importance of cabinet's communicating with each other regarding their goals, objectives, and strategies. Coordination of strategies and activities across all state government cabinets results in the most effective use of limited resources.

Enterprise Learning

In May 2002, EMPOWER Kentucky CEG began looking at learning opportunities for state employees from an enterprise perspective and taking proactive measures to ensure a work culture that supports and serves an employee's continuous learning.

To accomplish this, an Enterprise Learning Advisory Group will assess the current processes and practices for identifying and meeting learning and employee development needs across the enterprise and to recommend a comprehensive improvement approach that:

- Supports agency strategic plans;

- Supports the attraction, retention, and promotion of a competent state workforce;

- Streamlines and ensures the efficient use of resources while meeting learning demands;

- Ensures that learning opportunities and resources truly meet learning needs and achieve desired results; and

- Addresses proactively the enterprise learning needs that support the priorities and initiatives of the administration.

Cabinet Leadership Transition

CEG is partnering with the Office of State Budget Director to support the gubernatorial transition that occurs in 2003. The Office of State Budget Director provides the financial, legal and policy framework for transition of administrations, outlining the issues that face state government, the steps that must occur for an administration change, and what must take place to keep the government running smoothly during the transition. CEG is supporting the transition by focusing on the leadership transition in each cabinet.

CEG, in cooperation GSC, is providing services and resources to support the cabinet leadership through transition. These resources include a transition package template to ensure all critical information is passed to the new leader, knowledge management tools to capture the knowledge of employees as they retire, and training on how to manage and lead an organization during a time of change.

IV. LEADERSHIP AND CONTACT PERSON: Ms. I. Patrice Carroll, Executive Director, EMPOWER Kentucky Center for Excellence in Government (ph. 564-2611).

V. ***GOALS and TIMEFRAME:*** EMPOWER Kentucky CEG has been and will continue to be an ongoing re-engineering effort within the Patton Administration. The Governor continues to support major enterprise-wide initiatives such as digital government, space management, long-term strategic planning in the areas of energy and managed growth and development.

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.3 Building A Technology Infrastructure in State Government and Schools

I. ***CHALLENGE:*** To enable excellence in government services and advance education through the application of information technologies in an era of constrained resources and greater demand for services by citizens. The critical role of information technology (IT) in the public sector must meet these challenges as a primary enabler of modern, relevant, and effective government institutions.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton recognizes Information Technology is a driving force of the new economy and that the emerging "digital world" has drastically changed the environment for government, education and business. In such an environment, our state government and educational institutions must continue to investment in IT in order to effectively meet service demands and prepare our young citizens and adult workforce for the challenges of the future. Major investments have been made in recent years, and it is fully expected the IT infrastructure will require renewal and expansion. The current focus is on exploiting this potential and protecting the robust infrastructure with applications that meet the business needs of state agencies, serve citizens electronically and advance education at all levels. Citizens want, and expect state government to be as responsive as other modern organizations in the marketplace. With a growing portfolio of online e-Government services, the Governor is advocating more development of direct citizen transactions via the Internet. In today's world, this can be accomplished with technology; however, the need for broad policies that promote security and protect privacy must be adopted as part of the framework.

IT is recognized as a key enabler for the success of the six strategies articulated by the Governor. To accomplish the Governor's strategies, significant expenditures have been made in IT to expand infrastructure, with budget commitments to support key projects in Social Services, Education, Criminal Justice, Health Services, and Environmental Protection. With regard to education technology, the Governor recognizes its great potential as an equalizing force in the provision of educational resources to prepare our youth and adults for a future in the new economy. To advance this ambitious agenda, Governor Patton launched the "Connectkentucky" initiative in 2002, with the Office for the New Economy as the primary sponsor. "Connectkentucky" is a landmark public-private partnership designed to prepare Kentucky for the global economy. Using a formal methodology, the project assessed the state's technology infrastructure, access and use in year one, measuring Kentucky's readiness to compete in the networked world. The project now fosters increased use of technology among business leaders, policy makers, and individuals through goals articulated by the Connectkentucky Steering Committee and a strategic action agenda to make it happen.

III. ***PROCESS AND APPROACH:*** Kentucky has made major investments in IT in both government and state-sponsored education.

Technology Plan for State Government and Governance Model – All aspects of information technology governance, planning, management and service delivery, have been reviewed and transformed since the inception of Governor Patton's EMPOWER Kentucky initiative. As envisioned by EMPOWER, it is clear technology efforts may cross multiple cabinets in order to provide quality services to the citizens of Kentucky. Key accomplishments include a successful IT governance structure, adoption of enterprise policies, a maturing enterprise architecture for technology, and new disciplines such as project management.

A key aspect of the revised governance structure is the adoption of the "enterprise" view for acquiring, delivering, and managing IT products and services. The Chief Information Officer (CIO) is now the focal point for IT governance and executive leadership. The CIO, Governor's Office of Technology (GOT), and agencies support an enterprise investment approach and cross-agency collaboration. The state has laid the foundation for a true statewide approach to IT with a strong portfolio of shared services including a consolidated data center with production services, statewide electronic mail, Internet connections, and network security protection. The foundation of the infrastructure, the Kentucky Information Highway (KIH), continues to evolve as state governments' needs drive the expansion. A priority initiative in 2003 will be the award of the KIH 2 contract for wide-area network communication services.

With many achievements to date, he state's enterprise e-Government initiative continues to produce positive results tied to the theme of "Everyday Government." In the past year, many more online services from agencies were launched, an electronic payment gateway for processing payments was implemented, and a major milestone occurred when the state awarded a contract to NIC, Inc. to provide Internet portal services for state government. The state's new portal, branded as www.kentucky.gov, brings a new design, advanced technology and online services accessible to all.

Recent gains relate not only to technology, but also to new business processes, procurement of services and CIO policies to complement the IT architecture blueprint. One example is the success of the Strategic Alliance Services (SAS) process, an innovative approach to procuring services for IT projects. Since its inception, over $25 million in contracts have been awarded with significant reduced cycle time. In 2003, the SAS II (successor) proposals will be evaluated and a new round of contracts awarded to system integrators.

Significant accomplishments of in the last year include the strengthening or adoption of enterprise policies related to IT and security. IT security is a critical issue facing the public sector today. State government and postsecondary institutions rely on information technologies and the Internet to conduct business, manage activities, engage in communications, serve customers, and perform scientific research. While these technologies allow for enormous gains in efficiency, productivity, and communications, they also create new vulnerabilities to those who would do us harm. GOT and other agencies have made significant investments in both technology and skilled resources to protect information assets.

Technology in Schools – Today, as a result of KERA and Governor Patton's commitment to higher education reform, Kentucky students are at the national forefront in their knowledge of technology, and will therefore be better prepared when they enter the workforce. Under the Patton Administration, the state has continued to develop the Kentucky Education Technology System (KETS), a $553 million initiative to provide networked computers and other electronic tools to support teaching and learning and to facilitate administrative functions at the school and district levels. Kentucky was the first state to have every one of its local school districts linked to an integrated network, and the ratio of students to instructional computers has improved from 154:1 in 1992 to 4:1 today. During the same period, the ratio of teachers to computers improved from 28:1 to 25:1.

Kentucky's system of testing and accountability for public school improvement is an accurate measure of what's going on in our classrooms – and it shows that students are learning at higher levels now than ever before. In the 2002 biennial budget, the Governor committed $35 million for maintaining and advancing school technology. Many more online services are now available to administrators, educators, and parents. These include easy access to school district achievement results, teacher certification, and a comprehensive data portal called MAX. MAX is an on-line portal offering teachers, parents, policymakers, and other decision makers public information about Kentucky's schools such as school and district profiles, financial data, and assessment results. These accomplishments, supported by financial commitments during tight fiscal conditions, have made Kentucky an award winning, recognized national leader in deployment and use education technology.

Moreover, it must also be noted that Kentucky is on the cutting edge of states in offering postsecondary, secondary, and adult education through technology and distance learning. It is the first state in the U.S. to have a virtual university (www.kyvu.org), a virtual library (www.kyvl.org), a virtual high school (www.kvhs.org) and virtual adult education (www.kyvae.org) services. The Kentucky Virtual University (KYVU) is an on-line, technology-based institution that provides Kentuckians access to higher education and training programs anywhere, anytime. The KYVU coordinates the web-based distance learning activities for postsecondary education. Opening its doors to 235 students in the inaugural Fall 1999 term, the KYVU has quickly grown to over 8,000 students. The KYVU does not grant degrees but is a clearinghouse for courses and programs offered on-line by 27 accredited Kentucky colleges and universities. The KYVU frees resources for other purposes and offers new ways for place-bound students to increase their educational opportunities. In addition, by leveraging the infrastructure and expertise of the KYVU with other state partners, the KYVU has become a catalyst for innovative services.

Related initiatives continue to expand: the Kentucky Virtual Library, Kentucky Virtual High School, Kentucky Virtual Adult Education, and Kentucky Educators are now realities. The Kentucky Virtual High School provides equitable access to learning opportunities through on-line resources directed at students wishing to complete their high school education. The Kentucky Virtual Education Web site (KYVAE) is the result of a partnership between the KYVU and the Kentucky Department for Adult Education and Literacy (DAEL). The mission of the KYVAE site is to provide adult learner and instructor access to literacy information, curriculum, resources, and services in an easy-to use and motivational format. The site is dedicated to helping adult learners achieve their personal learning goals, which include skills improvement, grade level goals and/or completion of the GED. Over 3,000 adults are now registered students for distance learning.

Designed for the state's educators and administrators, www.KyEducators.org is a website designed to enhance the professional growth. Developed by staff from the Education Professional Standards Board (EPSB) in collaboration with the KYVU, the modules present research-based best practices. Available via the Internet, these on-line instructional modules have been designed to fit the unique needs and busy schedules of Kentucky's teachers and administrators, and those who wish to teach in Kentucky.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Aldona Valicenti, Chief Information Officer*** (ph. 564-1202); ***Thomas Layzell, President of the Council on Postsecondary Education*** (ph. 573-1555); ***Dr. Daniel Rabuzzi, Chief Executive Officer, Kentucky Virtual University*** (ph. 573-1555); ***Gene Wilhoit, Commissioner of Education, Department of Education*** (ph. 564-3141).

V. ***GOALS AND TIMEFRAME:*** The Commonwealth has been successful in much of its IT transformation and organizational implementation. Performance goals have been established by the CIO, GOT, KDE, and CPE. These are being monitored through various strategic planning processes several major objectives have been achieved, particularly in delivering more government services electronically, leveraging enterprise resources through shared IT services and innovative distance learning initiatives. The Commonwealth has been recognized for its IT management and performance in several national rankings, including the 2001 Government Performance Project. Kentucky received a "B+" in information technology, placing it in the top tier of all states. For the next assessment, the target goal is an "A" in this ranking. Kentucky has also been recognized nationally by leading organizations and firms for technology leadership in the public sector and education. With rising expectations of Kentucky's citizens, IT will continue to play a significant role in supporting strategies for enabling government services, improving our education product and building self-sustaining families.

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.4 Tax Fairness Initiatives

I. ***CHALLENGE:*** To assure the taxpayers of the Commonwealth are treated fairly and impartially with regard to their tax liabilities while creating a tax environment that supports economic development and provides expected services for the citizens of the Commonwealth.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has been, and continues to be, committed to a fair tax system for all Kentuckians. His goal is to support a tax structure that is competitive with our surrounding states while generating the necessary revenues to provide an excellent educational system and other governmental services required by the citizens of Kentucky.

Governor Patton has whole-heartedly endorsed the work of the National Streamlined Sales Tax Project, a 40-state effort to simplify and modernize the administration of the sales and use tax across the nation for all forms of commerce including catalog and Internet sales. With Governor Patton's support, Kentucky was the second state in the nation to adopt the Uniform Sales and Use Tax Administration Act and one of the first six states to adopt statutory changes which will enable Kentucky to enter into the multistate Streamlined Sales and Use Tax Agreement. These steps allow Kentucky to continue its leadership role in this important endeavor which will ensure the fair collection of taxes from remote and local sellers.

Governor Patton also supports EMPOWER Kentucky initiatives that lessen the burden on Kentucky taxpayers, whether by a reduction in filing requirements or by improving a situation that is unfair to taxpayers. An example is the administrative action taken by the Revenue Cabinet that removes inheritance tax liens and eliminates the inventory of a decedent's safe deposit box. This action makes government more efficient and reduces bureaucracy for all Kentuckians. Another example involves the unfair method used in taxing motor vehicles. Effective January 1, 1998, the average trade-in value from the prescribed automotive price reference manual has been used as the basis for calculating tax liability – a fairer approach. This is in contrast to the prior method, which used the midpoint between the average retail and trade-in values. This administrative action was codified by the passage of House Bill 74 in the 1998 Regular Session of the General Assembly and was proposed by Governor Patton because it was "the right thing to do."

III. ***PROCESS AND APPROACH:*** Governor Patton introduced comprehensive tax reform during the 2000 Regular Session of the General Assembly as part of his Executive Budget Recommendation. The overriding theme of the Governor's package was enhanced tax fairness while maintaining the adequacy of the state's revenue base. The Governor proposed reducing the income tax burden on working families; total removal of the state property tax on automobiles; removal of the sales tax from prescription drugs administered in doctor's offices and nursing homes; more equitable taxation of the newly emerging deregulated telecommunications industry; and, the requirement that the business community pay its "fair share." The Governor's comprehensive tax reform proposal was not adopted by the General Assembly; the General Assembly did adopt minor revenue enhancement measures, but none of these measures accomplished meaningful tax reform, nor will they provide enhanced fairness of our tax system. The Governor continues to be committed to the principles articulated in his comprehensive tax reform plan.

In 2003 Governor Patton again proposed that the General Assembly consider overall tax reform based on the following principles:

1. Be broad based, covering many areas of the economy and not overly dependent on any one sector.

2. Be fair, although fairness is in the eyes of the beholder. For a hundred years or so, progressive taxation based on overall income has been generally seen to be the most fair; those who have benefited more from being members of our society should pay progressively more of their income to support the society. Kentucky overall has a relatively flat tax structure, being somewhat regressive on the low-income end; however, not as regressive as some other states.

3. Be easy to administer and collect. Over the years, piecemeal amendments to our tax code, generally to address a special issue or a special interest, have made our code fairly complex.

4. Produce a stable stream of revenue because state government expenses go down slowly when times are good but they go up substantially when times are bad. Increased stability must be a fundamental goal of comprehensive tax reform.

5. Produce revenue which grows on average and over time at about the same rate as the state's economy. Over the long run, as a society gets more complex, commonly needed services such as education need to be increased and society may need to devote a larger percent of its

total production to the common good through government. Certainly we need a proportionately larger state government now than we did one hundred years ago. The fact is that government revenue in Kentucky has not grown as fast as our economy and yet our need to expand education, public protection, and social programs has grown. Growth consistent with the growth of our economy must be a fundamental goal of comprehensive tax reform.

6. Be adequate to keep Kentucky competitive with services needed by a strong society. Adequacy is subjective but as a minimum it must be sufficient to fund existing commitments. In fact, an adequate revenue stream is one which meets the needs of a growing economy. A growing economy will develop new needs.

7. Keep us in a competitive position for economic growth relative to our neighboring states.

	Fiscal Impact (Millions)		
	FY '04	**FY '05**	**FY '06**
2003 Comprehensive Tax Reform Proposal to Increase Adequacy, Fairness, Growth, and Stability in the Tax Structure			
Business Taxes			
• Replace the corporate income tax with a 2 Factor Business Activity Tax Based on Sales ($0.13/$100) and Payroll ($0.60/$100); and allow Credit of pass through income to individuals against individual income tax. Replace the corporate license tax with a Business License Tax at a rate of $0.41 per $100, extend it to business entities that offer limited liability protection.	$339.6	$363.4	$428.9
Individual Income Taxes			
• Expand Low Income Credit to taxpayers at or below 100% of Poverty	(31.0)	(33.2)	(35.6)
• Phase-out Pension Exclusion starting at $39,400; permit cap to grow by CPI	75.0	77.4	79.9
• Eliminate Deduction of Income Tax Paid to Foreign Countries	3.4	3.5	3.6
Property Taxes			
• Eliminate State Motor Vehicle and Watercraft Property Tax	(83.5)	(84.5)	(86.5)
• Set and Freeze the State Property Tax Rate on Real Property at $.135 per $100 of Assessed Value	4.8	10.2	14.5
• Exempt Intangible Personal Property from State Property Tax	(33.5)	(33.5)	(33.6)
Sales Taxes			
• Impose Sales Tax Responsibility on Dot.com Affiliates of Companies with KY Nexus	5.0	6.0	7.0
• Restore Sales Tax to Unbundled Transmission and Distribution of Natural Gas	6.0	7.0	8.0
• Impost Sales Tax on Certain Discretionary Services	48.8	51.0	53.8

Other Taxes			
• Raise the Excise Tax on Cigarettes by $.37 per Pack and Impose a 13% Excise Tax on Other Tobacco Products	167.4	167.4	167.4
• Impose Tax of $0.001 per KWH on Merchant Power Generated in Kentucky	1.4	1.4	1.4
• Consolidate and Simplify Wholesale Taxation of Alcohol Products	-	-	-
• Communications Industry Tax Reform	16.3	18.3	20.1
Total General Fund Tax Reform Measures	**$519.7**	**$554.4**	**$628.9**
Provider Tax			
• Increase Provider Tax on Nursing Facilities from 2% to 6%	47.9	50.8	53.8
• Increase Provider Tax on ICF/MR from 2% to 6%	5.0	5.3	5.6
Total Increases from Provider Taxes	**$52.9**	**$56.1**	**$59.4**
Total Tax Reform Measures	**$572.6**	**$610.5**	**$688.3**

In addition, Governor Patton has actively supported tax measures *to reduce taxes for Kentuckians by $350 million per year*, and which have made our tax system fairer. However, with the downturn in the national and state economies, it is now apparent that we can no longer afford to sustain these cuts. Tax changes implemented during Governor Patton's Administration include:

Income Tax Changes

- Exemption of Pension Income – This measure provides equal tax treatment of both public and private pension benefits. The exclusion of up to $35,000 was fully implemented in 1998 (House Bill 1, 1995 Extraordinary Session).

- Increase in Standard Deduction – The standard deduction for individuals was increased in increments from $650 to $1,700 for the year 2000 and indexed thereafter (House Bill 547, 1996).

- Exclusion of Health Insurance Premiums – The exclusion includes medical care coverage for the taxpayer, the taxpayer's spouse, and dependents (House Bill 321 and House Bill 315, 1998).

- Exclusion of Long Term Care Insurance Premiums – This act allows an exclusion from gross income for amounts paid for long term care insurance not previously excluded (Senate Bill 19, 1998).

- Exclusion of Tobacco Settlement Proceeds – Excludes from individual income tax any amount received by a producer of tobacco or a tobacco quota owner under the national settlement agreement (Senate Bill 247, 1998). Farmers were also allowed to exclude any amount received from the Tobacco Loss Assistance Program (TLAP) administered by the Commodity Credit Corporation (Senate Bill 49, 2000). This exclusion was expanded to any amount received for TLAP resulting from a reduction in a quantity of federal tobacco quota allotted (House Bill 209, 2001).

- Federal Tax Benefits – This measure allows participants in the Kentucky Educational Savings Plan Trust to gain federal income taxation benefits (House Bill 5, 1998).

- Adoption of Internal Revenue Code – This measure adopts the Internal Revenue Code (IRC) reference date of December 31, 1997, for tax years beginning on or after January 1, 1997, making the provisions of the Small Business Job Protection Act of 1996, the Health Insurance Portability and Accountability Act of 1996, and the Taxpayer Relief Act of 1997, effective for Kentucky taxpayers (House Bill 170, 1998).

  - Effective for taxable years beginning on or after January 1, 2000, the IRC reference date was changed to the code in effect on December 31, 1999, making the Surface Transportation Revenue Act of 1998, the Internal Revenue Service Restructuring and Reform Act of 1998, the Tax and Trade Relief Extension Act of 1998, the Ricky Ray Hemophilia Relief Fund Act of 1998, and the Tax Relief Extension Act of 1999, effective for Kentucky taxpayers.

  - For taxable years beginning on or after January 1, 2002, the IRC reference date was changed to the code in effect on December 31, 2001. The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) are included and in effect for the 2002 Kentucky Returns (House Bill 457, 2002).

- Consolidated Filing Election – Affiliated groups of corporations may elect to file consolidated Kentucky corporation income tax returns (House Bill 599, 1996).

- Kentucky Investment Fund Tax Credit – Individuals and corporations are allowed a non-refundable income tax credit, equal to 40 percent of the taxpayer's qualified investment in a certified investment fund (House Bill 206, 1998). This credit may now apply to insurance taxes and taxes imposed on financial institutions (savings and loan associations) and bank franchise tax (House Bill 525, 2002).

- Skills Training and Investment Tax Credit – Individuals and corporations are allowed a credit, equal to 50 percent of the approved cost incurred by an approved company in connection with its occupational or skills upgrade training program (House Bill 280, 1998). S corporations and partnerships were allowed to pass through the skills training investment tax credit to shareholders and partners (House Bill 381, 2000).

- Vouchers for Purchase of Health Insurance – Employers may deduct the cost of vouchers or similar instruments that provide health insurance coverage to employees or their families. Employees may exclude from gross income the value of the voucher or similar instrument used to provide health insurance (House Bill 280, 2002).

- Kentucky Industrial Revitalization Act (KIRA) Tax Credits Expanded – KIRA credits were expanded to apply to corporation license tax in addition to the corporation income tax (House Bill 996, 2000). Companies engaged in coal mining and processing operations which employ 500 persons and produce at least four million tons of coal annually may now qualify for KIRA credits (House Bill 325, 2001).

- Enterprise Zone Tax Credits – Expanded the number of companies eligible to qualify for the enterprise zone tax credits to include businesses whose workforce was comprised of at least 80 percent seasonal employees (House Bill 287, 2000).

- Tax Credit for Employers Who Assist Employees in Obtaining High School Equivalency Diploma – Employers were allowed a state income tax credit for a portion of the released time given to employees to study for the GED tests (Senate Bill 1, 2000).

- Credit for Qualified Research – Individuals and corporations are allowed a credit against individual and corporation income taxes equal to 5 percent of the cost of constructing and equipping new facilities or expanding existing facilities in Kentucky for “qualified research” (House Bill 525, 2002).

- Economic Development Modernization – The Kentucky Rural Economic Development Act (KREDA), Kentucky Industrial Development Act (KIDA), Kentucky Jobs Development Act (KJDA), and Kentucky Economic Opportunity Zone incentive programs underwent major revisions. These changes allowed for 11 additional counties to become eligible for KREDA benefits. KREDA, KJDA, and KIDA benefits have been expanded to include wage assessments. The minimum job eligibility requirements for KJDA have been reduced from 25 to 15 to attract “New Economy” businesses to Kentucky. (House Bill 372, 2002).

- Income Tax Credit for the Purchase of Kentucky Coal – A non-refundable income tax credit is available against corporation income tax, individual income tax, corporation license tax, and public service company property tax for Kentucky coal purchased and used for the purpose of generating electricity (House Bill 805, 2000).

- Economic Opportunity Zones – Economic Opportunity Zones were established to encourage the location and expansion of manufacturing, service or technology industries in inner cities and distressed areas in Kentucky. Approved companies are allowed a credit against the corporation income tax or individual income tax equal to the income tax that would be due from the net income of the project. A 5 percent wage assessment fee of the gross wages of qualified employees was also made available (Senate Bill 225, 2000).

- Nonresident Partners of Qualified Investment Partnerships – Nonresident individuals are exempted from taxation on distributive share income from a qualified investment company in which the partnership is formed to hold only investments that produce income that would not be taxable to the nonresident individual if held or owned individually (House Bill 525, 2002).

- Tax Credit for Reinvesting in Kentucky's Existing Vehicle Manufacturing Industry – Eligible companies may receive up to 10 percent of their reinvestment costs through individual income and corporation income tax credits and corporation license tax. The company must reinvest at least $100 million (House Bill 510, 2003).

Health Care Provider Tax Changes

- Repeal of Tax on Physicians – The tax was phased out over a three-year period. The rate was reduced to 1 percent for fiscal year 1997-98 and 5 percent for fiscal year 1998-99. The tax expired on July 1, 1999, (House Bill 397, 1996).

- Phase out of the Tax on Outpatient Prescription Drugs – The tax on outpatient prescription drugs was reduced from 25 cents to 15 cents for fiscal year 1999-2000. The tax expired on July 1, 2000, (House Bills 321 and 315, 1998).

Inheritance Tax Changes

- Exemption of Class A Beneficiaries – The phase-out of the inheritance tax for Class A beneficiaries began on July 1, 1995, and was fully phased out for estates when the death occurs after June 30, 1998, (House Bill 2, 1995 Second Extraordinary Session).

Insurance Premiums Tax Changes

- Beginning in fiscal year 1999-2000, capital and reserves taxes on domestic life insurers were phased out while state premiums tax are being phased in over a five-year period. Also, the insurance premiums tax rate will be lowered to one and 1.5 percent from the current 2 percent rate and will no longer apply to annuities. This will end the longtime controversy regarding the taxation of annuities and will equalize the tax treatment of domestic, foreign and alien life insurers (House Bill 648, 1998).

Motor Vehicle Usage Tax Changes

- Tax Basis – Since August 1, 1998, motor vehicle usage tax has been based on the amount paid for a vehicle. This replaces the valuation system that was based on book values and window sticker prices (House Bill 74, 1998).

- Exemption for Heavy Trucks – Effective October 1, 2003, trucks with a registered gross weight of over 44,001 pounds are exempt from motor vehicle usage tax (House Bill 293, 2003).

Property Tax Changes

- Rate Reduction for Non-commercial Aircraft – This measure subjects aircraft not used in the business of transporting persons or property for compensation or hire to a state property tax rate of one and one-half cents per $100 of value. Local taxation of this property is optional (House Bill 141, 1998).

- Rate Reduction for Documented Vessels – The measure subjects federally documented vessels that are not used in the business of transporting persons or property for compensation or hire to a state property tax rate of one and one-half cents per $100 of value. Local taxation of this property is optional. (House Bill 588, 1998)

- Rate Reduction for Distribution Center Goods – This measure provides that personal property shipped into Kentucky and placed in a warehouse or distribution center pending further shipment out-of-state be subject to a reduced state property tax rate of one tenth of one cent per $100 of value. Local districts have the option to exempt this property or reduce the rate (House Bill 65, 1998).

- Classification Equity for Leased Manufacturing Machinery – This provision provides that the reduced state property tax rate for manufacturing machinery apply to all manufacturing machinery, regardless of ownership. It also extends the exemption from local taxation to the same machinery. The bill creates equal rates for machinery engaged in the manufacturing process, whether that machinery is owned or leased by the manufacturer (House Bill 199, 1998).

- Homestead Exemption Extended – The homestead exemption for totally disabled persons was extended to include qualified individuals who die before the end of the taxable year (House Bill 158, 2000).

- Goods in Transit – Exempted goods in transit from the state property tax, and phased out the property tax levied on goods in transit by cities, counties, and school districts over a three-year period (House Bill 749, 2000).

- Un-mined Minerals Property Tax Relief for Farmers – Effective January 1, 2003, individuals will not receive an un-mined minerals property tax bill if they own the surface real estate and the un-mined minerals, they are not engaged in or affiliated with the business of mining, and the property is being actively farmed or managed for timber production (House Bill 243, 2002).

- Definition of Agricultural Land Expanded – The definition of agricultural land is expanded to include any parcel of at least five acres used for aquaculture allowing the property to be assessed based upon its agricultural value (Senate Bill 179, 2002).

Sales and Use Tax Changes

- Expansion of the Aviation Jet Fuel Tax Credit – The expansion of the credit exemplifies Governor Patton's pledge to assist in the expansion of Kentucky's aviation industry. Effective July 1, 2000, certificated air carriers will pay the first $1 million of sales and use tax incurred on the purchase of aircraft fuel, including jet fuel. The previous cap was $4 million (House Bill 444, 1998).

- Expansion of the Tourism Development Act – This act was amended to allow tax inducements for Kentucky craft and products centers, entertainment destination centers, and certain lodging facilities (House

Bill 397, 1998). Existing full service lodging facilities with a minimum of 500 guest rooms that have reconstruction, restoration, rehabilitation, or upgrade costs of more than $10 million may qualify as part of a "tourism attraction project" (House Bill 372, 2002).

- Expansion of the Raw Material, Industrial Supply, and Industrial Tool Exemption – The law was amended in 1996 to allow individuals or entities that perform industrial or manufacturing processes on another person's property to purchase these items without payment of the tax when such property will ultimately be for resale as tangible personal property (House Bill 321, 1996).

- Expansion of Agricultural Exemptions – To encourage Kentucky's farmers to diversify, several new agricultural exemptions were enacted. These include exemptions for farmers who raise llamas, alpacas, ostriches, aquatic organisms, and buffalo (House Bill 502, 2000). Deer and elk used in an agricultural pursuit is added to the list of exemptions available to farmers (House Bill 502, 2000).

- Wheelchair Parts and Certain Ostomy Supplies Exemption – Wheelchair repair and replacement parts are now considered physical aids exempt from tax when purchased by an individual for private use (Senate Bill 86, 2000).

- Free Drug Samples – Exempts free drug samples that are distributed to or from a physician's office (House Bill 370, 2001).

- Prescription Drugs - Effective July 1, 2004, exempts prescription drugs administered by a physician or other health care provider (House Bill 293, 2003).

- Prosthetic Devices – Effective July 1, 2004, exempts prosthetic devices purchased by a health care provider for use in the treatment of an individual (House Bill 293, 2003).

- Repair and Replacement Parts for Heavy Trucks and their Towed Units – Effective January 1, 2003, exempts repair and replacement parts for trucks, including any towed unit, used exclusively in interstate commerce for the conveyance of property and passengers for hire. The truck must be licensed for use on the highway and its declared gross vehicle weight with any towed unit is 44,001 pounds or greater (House Bill 293, 2003).
- Tobacco Buydown Receipts – Exempts tobacco buydown receipts resulting from payments made by the tobacco manufacturer or wholesaler to retailers based upon the number and price of tobacco

products the retailer sells to customers during a "buydown" promotional period (House Bill 346, 2003).

Severance Tax Changes

- Thin Seam Coal Tax Credit – Companies engaged in severing coal were allowed a non-refundable tax credit against the coal severance tax for coal mined from thin seams or with a high mining ratio (House Bill 892, 2000).

Tax Amnesty Program

On April 14, 2002, Governor Patton signed into law House Bill 614 providing for a Tax Amnesty Program. Tax amnesty provided a window of opportunity for taxpayers to pay taxes owed for certain back periods without interest, penalties, fees, or prosecution. The program ran from August 1 through September 30, 2002, and was projected to net $20 million initially and to result in $7 million of recurring revenue. More than $123 million in unpaid back taxes have been received, from which over $7 million will be returned to local taxing jurisdictions, including school districts. An analysis is currently underway to determine how much of the total can be considered to be recurring. Many Kentuckians recognized that Amnesty was a great opportunity for a fresh start. Over 23,000 individuals and businesses participated. Increased costs of collection fees, and penalties as well as new compliance programs are being implemented now that Amnesty is over. These new programs will help ensure that all taxpayers are paying their fair share.

IV. ***LEADERSHIP AND CONTACT PERSONS: Dana Bynum Mayton, Secretary of the Revenue Cabinet*** (ph. 564-3226); ***Mary Lassiter, Acting State Budget Director, Office of State Budget Director*** (ph. 564-7300).

V. ***GOALS AND TIMEFRAME:*** The Governor remains committed to continued improvement and fairness in Kentucky's tax structure, while providing the services expected by the citizens of the Commonwealth and securing financial and economic security for future generations. He will continue to discuss options to provide for comprehensive tax reform in the future.

Tax Reduction Measures

(millions of dollars)

	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	Total
Income Tax and Inheritance	**-27.1**	**-55.5**	**-98.3**	**-131.2**	**-161.1**	**-167.0**	**-194.6**	**-218.8**	**-245.3**	**-258.4**	**-272.7**	
Private pension & IRA exemption	-27.1	-45.3	-63.5	-72.7	-76.1	-79.6	-83.5	-86.8	-90.3	-95.4	-100.9	**-821.2**
Inheritance tax exemption	-	-6.0	-21.0	-33.6	-50.3	-51.7	-74.2	-83.1	-93.1	-98.3	-104.0	**-615.3**
Standard deduction increased to $1,700	-	-4.2	-13.8	-24.9	-34.7	-35.7	-36.9	-37.6	-38.5	-40.7	-43.0	**-310.0**
Federal Estate Tax Changes								-11.3	-23.4	-24.1	-24.8	**-83.6**
Health Related	**0.0**	**0.0**	**0.0**	**-1.2**	**-3.2**	**-3.2**	**-9.1**	**-9.2**	**-9.6**	**-10.3**	**-11.0**	
Health insurance deduction (reduces income tax)	-	-	-	-	-2.0	-2.0	-7.9	-8.0	-8.2	-8.8	-9.4	**-46.3**
Deduction for long term care (reduces income tax)	-	-	-	-1.2	-1.2	-1.2	-1.2	-1.2	-1.4	-1.5	-1.6	**-10.5**
Automobile	**0.0**	**-9.5**	**-13.8**	**-18.3**	**-19.2**	**-20.2**	**-21.2**	**-22.2**	**-23.3**	**-24.5**	**-25.7**	
Marcum: Property tax on automobiles	-	-9.5	-9.8	-10.3	-10.8	-11.3	-11.9	-12.5	-13.1	-13.8	-14.5	**-117.6**
Automobile property tax cut	-	-	-4.0	-8.0	-8.4	-8.8	-9.3	-9.7	-10.2	-10.7	-11.3	**-80.4**
Agriculture	**0.0**	**0.0**	**0.0**	**-1.0**	**-1.0**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	
Sales tax exemption for farm fuel	-	-	-	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	**-8.0**
Domestic cervids operations granted sales tax exemption		-	-	-	-	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	**-1.3**
Business	**0.0**	**-1.0**	**-31.0**	**-36.2**	**-42.9**	**-56.2**	**-66.4**	**-65.8**	**-67.9**	**-69.9**	**-71.8**	
Private aircraft taxed at lower property tax rate	-	-	-	-0.7	-0.7	-0.7	-1.1	-1.1	-1.1	-1.1	-1.2	**-7.6**
Investment Fund & Training (reduces income tax)	-	-	-	-1.0	-6.0	-8.5	-11.0	-11.0	-11.0	-11.3	-11.6	**-71.5**
St. Ledger: Equal treatment of stock	-	-1.0	-31.0	-32.6	-34.2	-35.9	-37.7	-39.6	-41.5	-42.8	-43.9	**-340.1**
Bank Franchise Tax: method changed	-	-	-	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.1	-2.1	**-16.2**
Jet fuel tax credit for large carriers	-	-	-			-6.0	-7.0	-6.0	-6.1	-6.3	-6.5	**-37.8**
Historic buildings as lodgings given sales tax refund		-	-	-	-	-	-1.1	-1.1	-1.1	-1.1	-1.1	**-5.5**
Seasonal employees considered "qualified" for KEZ		-	-	-	-	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	**-2.4**
Pari-mutuel tax credit		-	-	-	-	-0.7	-1.5	-	-	-	-	**-2.2**
Retail metal fixture		-	-	-	-	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	**-3.2**
Coal fired electric generation plants receive tax credits		-	-	-	-	-	-2.6	-2.6	-2.6	-2.7	-2.8	**-13.2**
Coal mined from thin seams given tax credits		-	-	-	-	-1.0	-1.0	-1.0	-1.0	-1.0	-1.1	**-6.1**
KIRA benefits to include corporate license tax		-	-	-	-	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	**-3.0**
Property Tax Reduction	**-**	**-**	**-**	**-**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-8.4**
Total General Fund Taxes*	**-27.1**	**-66.0**	**-143.1**	**-187.9**	**-228.6**	**-248.9**	**-293.7**	**-318.4**	**-348.5**	**-365.6**	**-383.7**	**-2,611.5**
Cumulative General Fund	**-27.1**	**-93.1**	**-236.2**	**-424.1**	**-652.7**	**-901.6**	**-1,195.3**	**-1,513.7**	**-1,862.2**	**-2,227.8**	**-2,611.5**	

	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	Total
Non-General Fund	**0.0**	**-29.0**	**-48.6**	**-82.2**	**-110.4**	**-146.4**	**-176.0**	**-128.9**	**-136.2**	**-144.0**	**-152.3**	
Provider tax exemption on physicians	-	-10.0	-21.0	-31.3	-44.4	-48.1	-51.6	-56.0	-60.0	-64.3	-68.9	**-455.6**
Provider tax exemption for prescription drugs	-	-	-	-	-5.0	-13.0	-14.0	-15.1	-16.2	-17.4	-18.6	**-99.4**
Reduce taxable value of motor vehicles (use tax)	-	-	-	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	**-54.4**
McGaren: Equalization of trade-in value	-	-	-	-	-	-3.3	-6.5	-6.5	-6.5	-6.5	-6.5	**-35.8**
Local govt component of auto property taxes		-19.0	-27.6	-36.6	-38.4	-40.3	-42.3	-44.5	-46.7	-49.0	-51.5	**-395.9**
Unemployment Insurance: Reduction in Employer Payment		-	-	-7.5	-15.7	-35.0	-54.8	-	-			**-113.0**
TOTAL ALL TAXES	**-27.1**	**-95.0**	**-191.7**	**-270.1**	**-338.9**	**-395.4**	**-469.7**	**-447.3**	**-484.7**	**-509.6**	**-536.0**	**-3,765.5**
Cumulative All Taxes	**-27.1**	**-122.1**	**-313.8**	**-583.9**	**-922.8**	**-1,318.2**	**-1,787.9**	**-2,235.1**	**-2,719.9**	**-3,229.5**	**-3,765.5**	

Summary	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	**Total**
Total General Fund	**-27.1**	**-66.0**	**-143.1**	**-187.9**	**-228.6**	**-248.9**	**-293.7**	**-318.4**	**-348.5**	**-365.6**	**-383.7**	**-1,513.7**
General Fund and Provider Tax	**-27.1**	**-76.0**	**-164.1**	**-219.2**	**-278.0**	**-310.0**	**-359.2**	**-389.5**	**-424.8**	**-447.3**	**-471.2**	**-1,823.2**
GF, Provider Tax and UI	**-27.1**	**-76.0**	**-164.1**	**-226.7**	**-293.7**	**-345.0**	**-414.0**	**-389.5**	**-424.8**	**-447.3**	**-471.2**	**-1,936.2**
Non-General Fund	**0.0**	**-29.0**	**-48.6**	**-82.2**	**-110.4**	**-146.4**	**-176.0**	**-128.9**	**-136.2**	**-144.0**	**-152.3**	**-721.5**
Court Ordered	**0.0**	**-10.5**	**-40.8**	**-42.8**	**-45.0**	**-50.5**	**-56.1**	**-58.6**	**-61.2**	**-63.1**	**-64.9**	**-304.3**

* General Fund Taxes do not include the provider tax and the motor vehicle usage tax.

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.5 Personnel Reforms

I. ***CHALLENGE:*** To assure that executive branch personnel are classified based on the work performed, compensated in an equitable manner, and categorized by state government in accordance with its needs and the employees' responsibilities.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor has always maintained that the success of state government depends on professional state government employees who do the vast part of the work and make most of the decisions necessary to implement statewide policy. The Governor believes that it is essential for employees to be classified based on the work performed and for their compensation to be administered in a fair and equitable manner.

III. ***PROCESS AND APPROACH:*** On the issue of compensation and classification for state employees, Governor Patton instructed the Personnel Cabinet to review the executive branch classification and compensation plans and to recommend new plans or such modifications, if necessary, to assure equity throughout the system. The Personnel Cabinet involved cabinet staff, various personnel administrators from the other cabinets, and input from 5,000 to 7,000 employees with respect to their job duties. The project used salary data from Kentucky employers, and data from surrounding state governments. Initial recommendations included extensive changes in the classification plan and a market based approach to compensation. Governor Patton allocated the necessary funds in his 2000-2002 Biennial Budget Request and issued Executive Order 2000-731 to implement the wage equity program. The program includes the improvement of the salary schedule by establishing 10 percent difference in the entry level wages of the various pay grades; raising the entry level wage by an average of 7.4 percent in each of the next two fiscal years; and, addressing the grade assignment of those job classes which are the most behind the appropriate internal alignment of grade assignment as determined by Personnel Cabinet research. Executive Order 2001-852 continued the second year of wage equity and institutionalized the adjustment of the salary schedule by ordering an adjustment each year thereafter based on the average increase for constitutional officers in the two years preceding each 60-day legislative session. This was modified in 2002 by Executive Order 2002-789 which made the salary schedule adjustment 2.7 percent for that year only, and specified that in 2003 the adjustment would return to the percentage indicated in Executive Order 2001-852. On July 1, 2003, the entry level of all grades and the midpoints were increased by 2.463 percent. The overall effect of wage equity, after the realignment of the grades, was a 19.233 percent increase in the entry level and 14.233 percent increase to the mid point.

In addition to classification and compensation, the Governor has addressed the issue of proper categorization. House Bill 727 in 1998 reduced nine types of employment to three categories: 1) full-time, 2) part-time, and 3) interim. As a result of this bill, part-time employees are now truly part-time and allowed to work less than 100 hours per month, and interim employees work less than nine months per year. Full benefits are also provided based on full-time work. Transition was provided to bring part-time employees who worked 100 hours per month or more into full-time positions since such employees had already passed merit exams and competed through the register process.

IV. ***LEADERSHIP AND CONTACT PERSON: Carol M. Palmore, Secretary of the Personnel Cabinet*** (ph. 564-4460).

V. ***GOALS AND TIMEFRAME:*** Governor Patton has made significant progress toward correcting long-term issues for state employees with respect to compensation and classification. Further changes will be needed in the future to address other issues in the system. The Governor is committed to continue looking into the issue and will make recommendations and changes on an ongoing basis.

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.6 Promoting and Providing Diversity

I. ***CHALLENGE:*** To provide opportunities within the employment and appointment level of state government that reflect the state's demographic makeup, and to promote diversity in order to maximize Kentucky human capital.

II. ***GOVERNOR PATTON'S POSITION:*** As he campaigned for the office, Governor Patton repeatedly stated that he wished to bring greater diversity and representation to the halls of Kentucky State Government. During his term, the Governor has made diversity a priority of his administration. In particular, the Governor has attempted to bring greater equity to the areas of gender, race, occupation, and geographical residence to the state workforce and to organizations that serve the Commonwealth.

III. ***PROCESS AND APPROACH:*** Governor Patton has maintained a solid commitment to increase the opportunities for minorities and women at every level of state government. The Governor is committed to providing greater diversity in state government employment and in his appointments and sends a consistent message to nominating associations to reflect diversity and ensure that Kentucky state government is reflective of the state's diverse population.

Governor Patton has achieved significant success during the course of his administration on two fronts: minority representation in the state workforce and diversity in state appointments. Governor Patton was the first governor to elevate the issue of minority hiring to a high level by creating an Office of Minority Affairs within the Office of the Governor. The number of minorities working in Kentucky State Government has continuously increased during Governor Patton's administration. Under his leadership the Commonwealth of Kentucky has exceeded its goal for minority hiring for an unprecedented sixth consecutive reporting period. Prior to this, the Commonwealth had never met this goal more than once during an administration, much less six straight times.

In its 38 years the Commission on Women has been at the forefront of all issues dealing with women, families, and children and the Patton administration has been a strong supporter of the work of the Commission. KCW staff has worked on issues of domestic violence and sexual assault, sexual harassment, and gender equity in the work place. The Commission helped women and men legislators lead the way for the development of the Office of Women's Physical and Mental Health. KCW works to improve educational opportunities for women, address pay equity issues and fairness in child support laws.

Governor Patton's support and inclusion of women in all levels of his administration is unprecedented. Since 1995, membership of women to boards and commissions appointed by the Governor increased from 31 percent to 43 percent. Seven of the 14 Cabinet secretaries in the Patton Administration are women. Women now hold 46 percent of the executive positions in state government. In the judicial arena, he consistently demonstrates his dedication to putting more women on Kentucky's benches. Of the judicial appointments Governor Patton has made, 42 percent are women compared to 17 percent as of 1995 and he has appointed more women in his first four-year term to judgeships than all other Kentucky governors combined.

In November 2001 Governor Patton announced the appointment of the Governor's Task Force on the Economic Status of Kentucky's Women to address the economic needs of Kentucky women. The Task Force, managed by the Kentucky Commission on Women, will examine the issues that are obstacles to the economic progress of Kentucky women, identifying solutions, and developing a plan of action to improve the economic status of women in the Commonwealth. Over 450 women and men from more than 60 counties around the state volunteered to serve on issue committees of the Task Force. First Lady Judi Patton and former Governor Martha Layne Collins serve as Honorary Co-chairs of this 49-member Task Force.

The Commonwealth, under Governor Patton's direction, is a leader in closing the gap on pay for minorities and females. According to a report issued by the Kentucky Commission on Human Rights, the average pay for minorities in the state workforce is nearly .90 cents on the dollar as opposed to the national average pay for minorities of .80 cents on the dollar compared to whites. The report also shows the same trend as it relates to females with the Kentucky average being .90 cents on the dollar compared to the national average of .73 cents on the dollar. Additionally, the Governor has more evenly divided appointments geographically – involving a wider range of careers and professions.

The Parole Board now has a 33 percent African-American composition. The Governor also appointed the first African-American to head the Kentucky State Police and the first to serve as special Supreme Court Justice in Kentucky. He also nominated the first African-American to serve as U.S. Attorney in Kentucky. On the education front, Governor Patton is the first governor to appoint two African-Americans to the University of Kentucky Board of Trustees, three African-Americans to the University of Louisville Board of Trustees, and has appointed more African-Americans to University Boards of Regents than any governor in history.

African-Americans have recently served as Chairman of the Council on Postsecondary Education and the Council on Postsecondary Education Nominating Committee. On the Judicial front, the first African-American female Circuit Judge in the Commonwealth and the first Administrative Law Judge (ADJ) were appointments of Governor Patton. Additionally, the Governor made the first African-American judicial appointments outside of the two largest metropolitan areas.

Each year, the Governor moves Kentucky closer to having gender equity on every state board or commission. As a testament to this commitment, all of Kentucky's eight public university and 16 community and technical school boards now have equal representation of the sexes. Additionally, every university board has minority participation.

IV. ***LEADERSHIP AND CONTACT PERSON: Bill Beam, Jr., Office of the Governor, Director, Boards and Commissions*** (ph. 564-2611); ***Carol Palmore, Secretary of the Personnel Cabinet*** (ph. 564-4460).

V. ***GOALS AND TIMEFRAME:*** Promoting diversity within Kentucky State Government and on boards and commissions is an ongoing administration priority.

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.7 Kentucky Employee Advisory Council

I. ***CHALLENGE:*** To provide public employees of the Commonwealth with the opportunity to advise the Governor through representatives of their choice with respect to their concerns with wages, hours and other terms, and conditions of employment.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton worked with the Labor Cabinet in the 1998 Regular Session of the General Assembly to introduce House Bill 760 which would have provided public employees the opportunity to bargain collectively for changes in the terms and conditions of their employment. The Governor personally advocated passage of the bill and in so doing stressed his belief that government should live by the same rules it imposes upon private business which must meet and confer with labor representatives to discuss working conditions. The obligation of a public employer and public employees to bargain collectively does not mean that either party is compelled to agree to a proposal nor does it require making a concession. The proposed bill contained a strong no-strike provision which would penalize public employees and public employee organizations for violation of no-strike provisions and establish a state employment relations board to provide hearings on unfair labor practices, determine union certification, impose strike penalties and be the first step in the resolution of a negotiation impasse. House Bill 760 was not adopted by the General Assembly.

III. ***PROCESS AND APPROACH:*** Working with representatives of labor and public employers, Governor Patton improved the provisions of House Bill 760 and incorporated changes into a new bill, which was pre-filed with the General Assembly prior to the 2000 Regular Session of the General Assembly. These changes include the establishment of separate bargaining units of employees of the Commonwealth including employees of Kentucky's postsecondary education system which would have been authorized to elect within its ranks an exclusive bargaining representative to negotiate terms and conditions of employment with a public employer. In addition, the bill contained a non-binding mediation and conciliation process applicable to state and non-state public employees and an exclusive bargaining representative in the event parties are unable to reach an initial agreement as to collective bargaining. The Governor presented data showing an increase in public support for collective bargaining at a public forum prior to the 2000 Regular Session of the General Assembly. As in prior sessions, the General Assembly did not enact a collective bargaining bill.

Although the General Assembly has not yet embraced public sector collective bargaining, the Governor has implemented an intermediate measure within his authority. The Governor's Employee Advisory Council (GEAC) was created by executive order in May 2001. The Governor continues to press for state employment reforms that will give employees a voice and venue to have their concerns and ideas expressed in a representative fashion. The GEAC was created to support and promote more effective employee relations and positive working relationships between management staff and merit employees below the supervisory level. The Governor's Council has received support among rank and file employees as an effective tool for improving cooperation and problem solving to foster a productive and efficient work place.

Merit employees in non-supervisory positions may elect an employee organization to represent their interests through the GEAC. Employees in seven categories participated in elections that began in August 2001 and ended in May 2002. Two categories have not had elections to date.

Job categories and the employee groups they represent are:

A. Clerical, Semi-Technical and Para-Professional Employees – International United Auto Workers Union (UAW)

B. Administrative Employees – No Representation—no election held to date

C. Labor and Trades Employees – Teamsters Local 783

D. Employment and Social Services Employees – American Federation of State, County and Municipal Employees (AFSCME)

E. Health Services Employees – Health Care Workers United (American Federation of State, County and Municipal Employees, AFSCME, and Service Employees International Union, SEIU)

F. State Police Officers – Kentucky State Police Professional Association (KSPPA)

G. Corrections, Parole and Other Law Enforcement Employees – American Federation of State, County and Municipal Employees (AFSCME)

H. Professional, Specialist, Scientific and Related Employees – No Representation – no election held to date

I. Regulatory and Inspection Employees – No Representation voted by category

The Governor's Executive Order provides that an employee organization must present evidence to the Secretary of the Labor Cabinet that 30 percent of the classified employees in a given category indicate interest in representation by an organization that has been certified. Then an election is held and one person from that organization sits on the Council.

To be elected, an employee organization has to receive more than half the total votes (greater than 50 percent) cast on a ballot. The Secretary then certifies the employee organization that receives the votes of a majority of the valid ballots cast in an election as the category representative on the Council. Each employee within each category has the right to participate.

The results below provide a quick review of the level of employee participation in the elections as of July 2002.

- Elections have been held in seven of the nine categories, with one category voting no representation.

- Six employee organizations now sit on the Council.

- Forty-seven percent of eligible employees participated in the elections (at the time of the elections, a total of 19,132 employees were eligible to participate and 8,909 returned ballots were deemed valid).

- According to current Personnel Cabinet data (as of June 30, 2002) more than 23,300 state employees are eligible for representation (represents the six categories).

With 47 percent of eligible employee participation in the elections, the message is clear that state employees want a voice in their employment conditions.

Although young in its formation, many of the procedures already realized through the work of the Council are measures to address the traditional personnel grievance process. A strategic preventive model has been developed whereby "mediation" will be offered to address early resolution of disciplinary grievances, thereby preserving the employer-employee relationship, saving time and diminishing the backlog of cases on appeal to the Personnel Board. This progressive alternative is exactly what Governor Patton envisioned as a way for employees to be “truly heard” on important employment issues and to improve the quality of communications in the workplace.

The Council will meet at least quarterly to provide advice and recommendations to the Governor about issues that effect employee/employer relations, health care and other matters.

Employees have an option to sign a written agreement to pay dues to certified employee organizations through payroll deduction. This option is voluntary and no public employee at any level is required to join an employee organization or to pay dues.

IV. ***LEADERSHIP AND CONTACT PERSONS: Denis Fleming, General Counsel to the Governor*** (ph. 564-2611).

IV. ***GOALS AND TIMEFRAME:*** The Governor’s commitment to collective bargaining rights for public employees is a continuing one.

STRENGTHENING EFFICIENCY AND OPERATIONS OF GOVERNMENT

4.8 General Fund Revenue Adequacy

I. ***CHALLENGE:*** To ensure an adequate recurring revenue base to allow Kentucky state government to meet its priorities and its recurring expenditure obligations over time.

II. ***GOVERNOR PATTON'S POSITION:*** Over the last seven years, through legislative action, court decisions, and administrative decisions, Kentucky's General Fund receipts have been cut by over $300 million per year. These tax cuts are important to the people of Kentucky – since the cuts provide for a fairer tax system and one that ensures the economic competitiveness of Kentucky in retaining and creating new jobs.

However, Governor Patton recognizes that Kentucky must have a General Fund recurring revenue base that grows with the increased cost of critical government services. Many of our program expenditures are increasing faster than the cost of living, such as Medicaid and corrections. In addition, Kentucky has made policy decisions to allocate increased funds to education and other important program initiatives that are investments in the people of Kentucky and their future.

Governor Patton realizes the difficult challenge of providing a fair tax structure that ensures our economic competitiveness, while continuing to provide for the recurring revenues needed to finance critical government services. The Administration closely monitors the elasticity of the General Fund and specific taxes that are an important part of our General Fund. Due to changes in the economy, the coal severance tax receipts are not likely to grow over time. Statutory restrictions constrain property tax growth. Kentucky's lottery has reached a point of maturity in its development and will not continue to provide additional revenue growth to the General Fund. When Tennessee implements its state lottery, it is anticipated that Kentucky lottery receipts will be reduced by approximately 10 percent. Corporate Income taxes are not a growing, or predictable, source of revenue. The elasticity of the sales tax will, over the long term, falls in relation to expenditures. Kentucky's individual income tax is the only major source of revenue growth to the General Fund that has an elasticity of greater than one (i.e., growing at or better than growth in personal income). Thus, General Fund elasticity is an issue of concern as we try to provide for the recurring revenue necessary to meet program expenditure needs. This concern was further documented by the work of Dr. William Fox, a consultant to the Legislative Research Commission. In his report to the Subcommittee on Tax Policy Issues of the Interim Joint Committee on Appropriations and Revenue, Dr. Fox identified a structural imbalance that will result in Kentucky's budget due to the loss of elasticity in revenues.

III. ***PROCESS AND APPROACH:*** Governor Patton has been and is committed to revision of our General Fund tax structure. Governor Patton believes that improvements in our tax structure are an integral part of the evolving new economy, and that we can provide for changes in our tax structure that enhance the fairness of our tax system in this new economy. He also seeks to allow Kentucky to continue to be competitive for the creation of jobs in this changing dynamic.

In the 2000 Regular Session of the General Assembly, Governor Patton proposed comprehensive tax revisions. The Governor's overall tax reform proposal was not enacted by the General Assembly, but the Governor remains committed to improving our tax system with emphasis on ensuring that the elasticity of Kentucky's General Fund tax base provides for recurring revenue. In the 2000-02 interim the LRC had a study group that utilized the services of Dr. Fox. Important recommendations were presented for improving the elasticity of our revenue base; recommendations that the Governor generally supports.

In the 2003 Regular Session of the General Assembly, Governor Patton proposed a comprehensive tax modernization proposal to restore adequacy to General Fund revenues, make the tax code more fair, improve the stability of revenues, allow revenues to grow more closely with the growth in the economy and the needs of a growing society, and keep Kentucky competitive for economic development. A copy of the proposal, *Securing Kentucky's Future,* can be found at: www.osbd.state.ky.us/publications. The 2003 General Assembly did not enact the Governor's proposal to reform the tax structure.

IV. ***LEADERSHIP AND CONTACT PERSONS: Mary E. Lassiter, Acting State Budget Director, Office of State Budget Director*** (ph. 564-7300).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to tax revisions that enhance the elasticity of our General Fund. Such revisions require enactment of statutory changes by the General Assembly. The Governor's commitment is contingent upon General Assembly support for meaningful improvement in our tax structure.

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Reducing Crime and its Costs to Society

Reducing Crime and its Costs to Society

- Improving the Criminal Justice System
- Enhanced Salaries for Public Defenders
- Unified Criminal Justice Information System
- Corrections Improvements
- Reforming the Juvenile Justice System
- Strengthened Law Enforcement
- Enhanced Penalties for Hate Crimes
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- Homeland Security

REDUCING CRIME AND ITS COSTS TO SOCIETY

5.1 Improving the Criminal Justice System

I. ***CHALLENGE:*** To reduce crime, enhance public safety, increase the public's confidence in the criminal justice system, and improve the system's efficiency, effectiveness, and response to crime victims.

II. ***GOVERNOR PATTON'S POSITION:*** Reducing crime in Kentucky remains high on Governor Patton's list of priorities. He believes in a comprehensive approach to addressing crime's devastating costs to society, and has adopted three primary objectives for addressing crime. These are: 1) developing a system that punishes the truly violent while involving communities in efforts to rehabilitate nonviolent offenders; 2) an aggressive and tough approach to punishing and rehabilitating problem juveniles; and 3) combating the scourge of illegal drugs on Kentucky's society. Since the December 1, 1997, report of the Governor's Criminal Justice Response Team, which clearly showed a criminal justice system that had become fragmented over the years, the Governor has ranked improvements to the system as critical to accomplishing the three aforementioned objectives.

III. ***PROCESS AND APPROACH:*** Following the work of the Criminal Justice Response Team, comprehensive legislation was prepared and the Governor's Crime Bill, House Bill 455, became law in 1998. Since then, all facets of the criminal justice system have come to the table for in-depth study and to develop recommendations for further improvements to the system. Representatives from the legislature, the judiciary, the police, prosecutors, defense attorneys, victims, corrections professionals, educators, and others, regularly meet within the structure of the Kentucky Criminal Justice Council (KCJC) to carry out the Council's statutory duties.

The KCJC has been charged with studying and reporting criminal justice policy and legislation to the Governor and the General Assembly. Following the Council's first report, which was delivered on July 1, 1999, recommendations have been generated on a broad range of criminal justice issues relating to community-based sanctions; drug strategy; the collection of court costs, fines and fees; juvenile sex offenders; criminal gangs; hate crimes; the penal code, capital litigation, and the much-needed Unified Criminal Justice Information System (UCJIS).

The Secretary of the Justice Cabinet chairs the KCJC. The Council has established seven issue-specific committees since it became operational in 1998. These include: Corrections/Community-Based Sanctions, Drug

Strategy (to be reconvened as Drug Policy), Juvenile Justice, Law Enforcement Issues, Penal Code/Sentencing, UCJIS and Capital Litigation Committee. These committees are staffed by the Office of the Criminal Justice Council with assistance provided by employees from member agencies. All committees consist of chairs and vice-chairs from the Council membership with the remaining committee members chosen from various criminal justice organizations represented on the Council. The UCJIS Committee has worked since 1998 on improvements in Kentucky's criminal justice agencies ability to access criminal justice data quickly, and its progress reflects the current state of the art in the nation. The Capital Litigation Committee reviewed issues pertaining to implementation of the death penalty, including judicial, legal and appellate procedures, and reached consensus on a recommendation relating to access to DNA evidence as well as a list of items requiring future in-depth research. The Penal Code Project has incorporated extensive legal research, consultation from a national expert, and input from the key players in studying revisions designed to improve the internal consistency of the Kentucky Penal Code. The final published study of the Penal Code will be submitted in November 2003 to the Governor and the Interim Joint Committee on Judiciary as a resource document.

The Council meets on average six times each year and will continue to disseminate information on crime patterns and trends, recommend modifications to the law, review proposed legislation, work with local communities, and report to the Governor and the General Assembly at least six months prior to every Regular Legislative Session.

The administration of justice is becoming more dependent upon the work of forensic scientists to prove the guilt and innocence of those charged with crimes. The KSP Forensic Laboratory System and the Medical Examiner's Program are striving to provide advanced forensic analysis to the courts to enhance fair and equitable adjudication of cases. Recent improvements have come from moving the Cabinet for Health Services Toxicology Lab to the Medical Examiner's Office which will speed up the process of determining the cause of death in investigations. The 2002 General Assembly passed House Bill 4 to expand the collection and testing of DNA samples which will be included in the National DNA database. Additional funding was provided for new forensic scientists and equipment in the KSP and the Medical Examiner's laboratory to address backlogs in the analysis of toxicology, drug evidence, and DNA. These efforts will help to insure the prosecution of crime and a safer Commonwealth.

As a result of a recent KSP reorganization, the new Division of Forensic Services is expected to improve service delivery in the area of forensic and laboratory sciences to department personnel, other local, state and federal officials. Based on current workload statistics, 80 percent of KSP's laboratory analysis is for non-KSP entities.

All departments within the Justice Cabinet, and many other agencies as well, have worked to fully implement the changes to the criminal justice system mandated by the 1998, 2000, 2001, and 2002 General Assemblies. As these mandates are being implemented, agencies are working to analyze their costs and impacts. These changes include the reauthorization of life without parole as a criminal penalty and the requirement that violent offenders serve 85 percent of their sentences. Megan's Law, requiring community notification of the release of sex offenders, was implemented in 1998. During the 2000 General Assembly, this law was dramatically modified so that all convicted sex offenders are listed on a KSP website with the offender's photograph and identifying information. Supplementing the Sex Offender Registry (SOR) website service, the KSP launched a new Sex Offender Alert Line in April 2002 to allow citizens to register to be notified if a sex offender moves into his or her zip code area. Photographs, fingerprints, and location information are fed to the system through a series of digital cameras in the fourteen correctional facilities throughout the system. Since its inception, KSP has continued to maintain the SOR for Kentucky, which includes maintaining current addresses for offenders. During 2002, the SOR Section registered 682 additional sex offenders. The SOR currently contains 2,502 convicted sex offenders.

During the 2002 Legislative Session, the Governor actively pursued the passage of House Bill 188 which strengthened the requirements for Kentucky citizens to obtain a drivers license. This eliminated existing loopholes which would allow illegal immigrants to obtain a valid Kentucky drivers license. In addition, the Governor pursued the passage of House Bills 189 and 190 which enhanced the training curricula and standards for Commercial Drivers Training Schools. This legislation also strengthened the requirements for persons who seek a Commercial Drivers License (CDL) from the Commonwealth. These two measures will positively impact the state and national security.

The application of information technology to enhance criminal justice efforts continues to receive strong support from Governor Patton, who has committed more than $14 million dollars in the last two budget cycles to develop a Unified Criminal Justice Information System. These technology projects usher in a new era of technological assistance to law enforcement, which should reap immediate benefits in the efficiency of our criminal justice system.

Two applications developed by the KSP include the development of an electronic version of Kentucky's collision accident reports (CRASH), known as E-CRASH, and an electronic version of the Uniform Offense Report for reporting criminal offenses. E-CRASH allows officers to complete and submit collision reports, including drawings of accident scenes, electronically without ever having to complete a "paper" report. Through federal grant funds, the E-CRASH system has been enhanced by incorporating CDL and Federal Motor Carrier information. This inclusion improves the overall accuracy of the Commercial Vehicle Collisions information. E-CRIME is similar to the E-CRASH application in that it eliminates the need for officers to submit a "paper" report. E-CRIME will include the ability to electronically draw crime scenes. Utilizing the information from E-CRASH, E-CRIME, and coordinating with GIS information the agency hopes to develop plans-of-action in dealing with high accident and high crime areas for law enforcement throughout the Commonwealth. Using "Hot Spot" information generated by these reports, law enforcement can be better distributed to detect and prevent crime and accidents. Field testing on E-CRIME started in August 2002, and by November 2002, the program was fully operational with 14 posts and various sections up and running by the end of 2002. As a complement to E-CRASH and E-CRIME, Kentucky State Police is also working on a new electronic reporting initiative known as E-CITATION, which will have the same look and feel as the E-CRASH and E-CRIME systems and share many of the same data tables. Once fully developed and implemented, KSP will provide this electronic citation system at no cost to law enforcement agencies.

The Kentucky Parole Board has adopted parole guidelines based on an objective based risk assessment instrument and an Offense Severity Index. Utilizing these guidelines will assist the Board in increasing public safety by giving them the tools to make sound, reasoned and rational release and revocation decisions.

- **Mobile Data/Interoperability Project:** KSP has received federal funding of $10 million to support the purchase of necessary equipment and software to construct a wireless data platform throughout 42 counties in Eastern Kentucky. Once installed, a combination of the communication and data network will allow public safety officers to communicate and report in a wireless fashion. This combination of software and wireless connection will also allow law enforcement officers in the field to have access to real-time intelligence information and allow officers to electronically submit collision reports and crime reports. This makes the car a virtual office for the police officer enabling him or her to spend more time in the communities and in an enhanced state of readiness to respond to traffic collisions, criminal and delinquent activity, and other emergencies. The KSP Chief Information Officer within the

Division of Technical Services continues to actively form partnerships with local police and community officials in an attempt to expand this program throughout the entire Commonwealth.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Ishmon Burks, Secretary of the Justice Cabinet*** (ph. 564-7554); ***Nicholas P. Muller, Executive Director, Criminal Justice Council*** (ph. 564-0341); ***Patrick N. Simpson, Commissioner, Kentucky State Police*** (ph. 695-6303).

V. ***GOALS AND TIMEFRAME:*** Governor Patton has committed to reducing crime and its societal costs. Implementation of the initiatives contained in House Bill 455 are ongoing. The Council's long-term objectives include: 1) expanding efforts in data development through the Statistical Analysis Center (SAC) to promote criminal justice policy research and to publish statistical reports, such as the Annual Sourcebook of Criminal Justice Statistics; 2) utilizing the newly established Public University Research Consortium (PURC) to enlist the assistance and expertise of criminal justice faculty across the Commonwealth for applied research, project evaluation, and program advisement; and 3) hosting a state level criminal justice policy summit to raise awareness about emerging and contemporary justice issues.

REDUCING CRIME AND ITS COSTS TO SOCIETY

5.2 Enhanced Salaries for Public Defenders

I. ***CHALLENGE:*** To assure that Kentucky's Public Defender system continues to attract and retain legal professionals who will deliver the highest quality of legal services to truly indigent citizens charged with or convicted of a crime, thereby guaranteeing the principle of equal justice under law.

II. ***GOVERNOR PATTON'S POSITION:*** A corollary of Governor Patton's commitment to reduce crime and its costs to society is the Governor's belief that public defenders within the Department of Public Advocacy must receive adequate compensation. The ability to retain and attract quality public defenders through enhanced salaries enables those entrusted with Kentucky's indigent defense delivery system to provide vigorous and diligent defense on behalf of indigent clients within the framework of our law and procedure. Indigent defense is a basic and constitutionally mandated function of government. However, public defenders and court-appointed counsel have found it increasingly difficult to assure due process of law with our growing population and crowded courts. Excessive caseloads and high public defender turnover have been the result. Many young lawyers seek public defender positions out of a sense of public service and as an opportunity to gain invaluable experience as a trial or appellate attorney. Many, however, become dedicated to the professional career of being a public defender. But when compensation fails to meet the perceived needs of highly skilled public defenders, the promise of higher income in the private sector drains talent from the Department of Public Advocacy. This is detrimental to our goal of attracting and retaining quality people.

III. ***PROCESS AND APPROACH:*** Governor Patton included new General Fund dollars in the amount of $10 million in the Department of Public Advocacy's budget enacted by the General Assembly for fiscal years 2000-01 and 2001-02. Public defender salaries were enhanced by $3.8 million over the biennium. Entry level salaries for public defenders increased from $23,000 to over $34,000 by July 2002. Salaries for experienced defenders increased by 17.8 percent over the biennium. In addition, the Governor has made great progress toward completing the full-time system at the trial level. New full-time offices have opened since 2000 in Calloway and Bullitt Counties. In 1996, 47 counties were covered by a full-time office; 73 counties had public defender services delivered by private lawyers on contract. Today, 112 counties are covered by a full-time office. The Governor included in his 2003 budget additional money to open offices in Boone County and Harrison Counties to cover an additional five counties. The goal of having a full-time office deliver public defender services in all 120 counties can be reached during 2004. In addition, public defenders were exempted from further budget cuts during the biennium. This exemption allowed the Department to avoid turning cases back to the Court of Justice, and allowed the Department to handle growing caseloads. Reduction of excessive caseloads continues to be a priority.

IV. ***LEADERSHIP AND CONTACT PERSONS: Janie Miller, Secretary of the Public Protection and Regulation Cabinet*** (ph. 564-7760); ***Erwin Lewis, Public Advocate, Department of Public Advocacy*** (ph. 564-8006).

V. ***GOALS AND TIMEFRAME:*** The Department of Public Advocacy now has a balanced budget. One hundred and seventeen counties will be covered by a full-time office as of October 2003 when the Boone and Harrison County Offices open. The goal is that all 120 counties will be covered by a full-time office by July 2004. Caseloads for trial defenders increased by 8 percent during fiscal year 2001-02 and by another 7 percent during the first three quarters of fiscal year 2002-03. Ten caseload reduction lawyers are going to be added during fiscal year 2003-04 to address these growing and excessive caseloads.

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5.3 Unified Criminal Justice Information System

I. ***CHALLENGE:*** To provide the most complete, accurate, and up-to-date information to professionals in the criminal justice system relating to individuals charged with or convicted of a criminal offense in a timely and accessible manner.

II. ***GOVERNOR PATTON'S POSITION:*** Providing the most complete and up-to-date information to state and local law enforcement, the courts, corrections, prosecutors, and all areas of the criminal justice system in the Commonwealth is one of Governor Patton's important goals. Through this integrated approach, he believes that the criminal justice community can better understand and fight the war on crime in the Commonwealth and enhance the Commonwealth's ability to protect its citizens.

III. ***PROCESS AND APPROACH:*** The Governor's Crime Bill, passed in 1998, created the Kentucky Criminal Justice Council and mandated the establishment of the Unified Criminal Justice Information System Committee (UCJIS) to be chaired by the Chief Information Officer of the Commonwealth. Representatives of the judiciary, the police, prosecutors, victims, corrections, and others regularly meet to discuss information integration efforts. The Committee has spawned six working groups to concentrate on specific areas of integration to include legal and policy issues, technical issues, funding guidelines, automated warrants, training, public relations, and wireless communications. A strategic plan has been developed and an implementation plan is being utilized to carry out the major initiatives set out in the strategic plan.

There are several issues and projects ongoing. The cornerstone to the UCJIS project is the positive and absolute identification of the offender. Supported with nearly $15 million in funding from the Governor over the past two biennia, the Automated Fingerprint Identification System (AFIS) to identify the offender was implemented and included the installation of over 100 Printrak LiveScan and DeskScan terminals in all correctional facilities and jails statewide. Jefferson County is completing an electronic uniform citation (E-Citation) pilot. The E-Citation project includes the development of an electronic uniform citation to electronically transfer criminal justice information among agencies. Data and operational standards have been developed to maintain consistency in the ability to communicate the data. Major components in this process are the development of a new computerized criminal history system (CCH), and pilot projects testing the possibilities and capabilities of wireless communication within the Commonwealth. The CCH project is progressing and will be fully implemented in October 2003. A key component of this project is making Kentucky FBI III compliant. The wireless pilots completed in early Spring of 2003 and post-implementation audits are underway. Additional funding has been secured and wireless technology will continue to be implemented across the state.

Assistance and coordination with local law enforcement took place to determine communications and records management/computer–aided dispatch needs. As a result, the Kentucky State Police (KSP), in partnership with the Center for Rural Development, kicked off the CAD/RMS project in late 2002.

A separate warrants workgroup is developing a pilot project to define the best warrants process in a particular judicial district involving representatives from the KSP, the Administrative Office of the Courts, the Governor's Office for Technology, the Commonwealth's Attorney's Offices, the County Attorney's Offices, and the Circuit Court Clerk's Offices. The warrants project also includes an upgrade to the current AFIS system to allow automated warrants checks at initial booking in the jails.

Utilization of current and innovative technologies to provide communications and data collection is an integral component of the project. Governor Patton has shown his ongoing support of this effort by earmarking additional funding for the UCJIS project in each biennium of the Administration to continue integration efforts.

IV. ***LEADERSHIP AND CONTACT PERSONS: Aldona Valicenti, Chief Information Officer, Governor's Office for Technology*** (ph. 564-2611); ***Mary Pedersen, Project Manager, Unified Criminal Justice Information*** (ph. 564-7554); ***John Powell, Acting Chief Information Officer, Justice Cabinet*** (ph. 564-7554).

V. ***GOALS AND TIMEFRAME:*** Governor Patton is committed to reducing crime through providing better information in a timelier manner to criminal justice professionals. Implementation of the initiatives contained in the Governor's Crime Bill creating the UCJIS project is ongoing.

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5.4 Corrections Improvements

I. ***CHALLENGE:*** To protect public safety and maintain appropriate sanctions for criminals while reducing the costs to the taxpayers for operating the state's correctional system.

II. ***GOVERNOR PATTON'S POSITION:*** The Governor continues to advocate a "get tough" position on crime. The first priority of the corrections system is the protection of public safety and the application of a range of sanctions designed to deter criminal behavior. For those violent offenders who pose a clear, present, and continuing danger to society, the Governor supports long-term incarceration, with truth in sentencing, and the expeditious application of the death penalty when appropriate. The Governor is, however, committed to the prospect that many non-violent offenders can be effectively treated and controlled in the community and should be given the opportunity to become productive, tax-paying citizens of the Commonwealth.

III. ***PROCESS AND APPROACH:*** The Governor has demonstrated his commitment to addressing the problem of crime by supporting the funding of additional prison beds as needed. To reduce the cost of building and operating additional state prison facilities, he has continued to support the state's reliance on county jails to incarcerate state prisoners who have committed less serious offenses. Continuation of this strategy has resulted in an alternative source of revenue for fiscally strapped county governments, thus, reducing the number of local tax dollars that must be spent to support jail operations. The jails use these state prisoners to perform public works, such as cleaning roadways, which saves the taxpayers additional sums of money.

The Governor, in his Crime Bill, provided for the development of alternative sentencing programs for non-violent offenders that require them to work and pay much of the costs associated with their punishment. Community supervision combines the close monitoring of behavioral compliance with the provision of substance abuse treatment, and removes non-violent offenders from the Commonwealth's prisons, making these beds available for the incarceration of more violent offenders. These efforts save the taxpayers a significant amount of money by reducing the number of new prison beds that must be constructed. The Department of Corrections is working very closely with the Criminal Justice Council to ensure such alternative programs have the support of the entire Criminal Justice System.

On September 12, 2002, the Governor issued an Executive Order which restructured the Kentucky State Corrections Commission to establish a better infrastructure for promoting, monitoring, and implementing community-based sanction programs in the communities as alternatives to incarceration. This was done in response to a recommendation from the Corrections/Community-Based Sanctions Committee of the Kentucky Criminal Justice Council that had conducted a 15-month study on alternative sentencing. This Executive Order was affirmed by the 2003 General Assembly in Senate Bill 74.

The Governor has signed two death warrants that have been carried out during his administration. In 1997, Harold McQueen, who murdered convenience store clerk Becky O'Hearn, became the first person on Kentucky's Death Row to be executed in 35 years. In 1999, Edward Harper was executed for murdering his parents. Harper became the first person to be executed by lethal injection in Kentucky. Governor Patton strongly supports the provisions of due process appeal in capital cases but believes appeals should be litigated in an expeditious fashion to reduce delay of justice and the associated costs to the taxpayers.

Successful passage of the Governor's crime package during the 1998 General Assembly mandated that violent felons serve at least 85 percent of their sentences. Alternative sanctions for non-violent offenders, stronger sanctions for sex offenders, and increased victim rights and compensation were among many other important revisions to the criminal justice system.

The Governor has demonstrated strong and continuing support of the Department's Correctional Industries Program. This Program provides employment and job training opportunities for inmates while producing a variety of goods and services that are sold to state and local agencies. The Correctional Industries Program is self-sufficient, therefore reducing the amount of tax dollars spent on the state's prison system.

The total felon population in Kentucky continues to grow significantly. Since 1996 the total has risen from 12,649 on June 30, 1996, to 17,168 on May 30, 2003, an increase of 4,519 inmates, or 36 percent. The fact that it has not grown even faster can be attributed to passage of the Governor's crime package (House Bill 455) in 1998 which has had the effect of emphasizing alternative probation for non-violent, first-time offenders with actually longer prison time for violent offenders. The Governor also recommended legislation enacted in the 2003 Budget Bill that would have safely reduced costly prison incarcerations by approximately 259 beds by giving parolees credit for successful time served on the street against their prison sentence upon revocation for technical violations of conditions of parole.

In his continuing efforts to manage the financial woes for the state, Governor Patton signed an Executive Order on December 16, 2002, that allowed the Department of Corrections to release non-violent Class D inmates who were nearing completion of their sentence. The conditional commutation of the inmates was approved in an effort to balance the budget of the Department of Corrections, which was faced with maintaining the cost of its largest felon population in history while the state suffered repeated shortfalls. The Department of Corrections used specific and stringent criteria in choosing the inmates who were incarcerated on non-violent offenses, and on average, were within 80 days of being released. In December 2002, the Governor released 567 inmates, and in January 2003, 311 additional inmates were released to maintain the felon population at budgeted levels. The Governor ended the Early Release Program on February 1, 2003.

The Governor funded the new 961-bed prison in Elliott County that is scheduled for completion during mid-2004. His Administration has also made cost-effective capacity additions to the state prison system in terms of several in-fill construction projects and other existing-facility capacity expansions effectively lowering the unit cost of housing state inmates. The system capacity to house felons in state prison facilities was 9,849 in fiscal year 1995-96, compared to 11,788 currently.

IV. ***LEADERSHIP AND CONTACT PERSONS: Ishmon Burks, Secretary of the Justice Cabinet*** (ph. 564-7554); ***Vertner Taylor, Commissioner, Department of Corrections*** (ph. 564-4726).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to the continued development and implementation of a comprehensive program of cost-effective alternative sanctions for less serious felons in conjunction with other cost containment initiatives that still provide secure public safety.

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5.5 Reforming the Juvenile Justice System

I. ***CHALLENGE:*** To reduce the number of crimes committed by juveniles and to transform those who are already in the juvenile justice system into productive members of society.

II. ***GOVERNOR PATTON'S POSITION:*** In order to restore faith in the juvenile justice system, juveniles must be held more accountable for their actions. In the past, juveniles have learned that, if they commit a crime and go to court, they are likely only to receive a "slap on the wrist." This is because there are not enough programs and institutional beds available for juvenile offenders. The system must be revamped so that the certainty of punishment will act as a deterrent to juvenile crime. Effective prevention and early intervention programs are an essential part of an efficient juvenile justice system.

III. ***PROCESS AND APPROACH:*** The Governor set forth a bold plan to address the problem of juvenile crime. First, he supported legislation that consolidated all juvenile justice programs in a new Department of Juvenile Justice. Second, Governor Patton increased the General Fund appropriation nearly 100 percent since the inception of the Department of Juvenile Justice. Third, he provided funding for new juvenile detention centers and residential programs to expand the number of beds available statewide.

A. New Department of Juvenile Justice – House Bill 117: The 1996 General Assembly passed a bill which had the strong support of the Governor, and which expanded programs which deal with juvenile offenders. The bill improved the system in the following manner:

- Consolidated programs for juvenile offenders in a single new Department;
- Focused on programs which prevent crime rather than just dealing with the problem after it occurs;
- Allowed victims and school officials more information about juvenile offenders;
- Focused on programs which ensure that juvenile offenders in the community are closely supervised and monitored;

- Strengthened penalties for juveniles who are convicted of public offenses; and

- Enabled Kentucky to completely satisfy all compliance provisions in a Federal Consent Decree formally lifted in January 2001.

B. Additional Resources – As mentioned above, the Governor has increased recurring funding by approximately 100 percent to improve the system. These funds will increase the number of beds and programs and allow the state to comply with federal court orders.

C. Additional Juvenile Detention Centers – The Governor's plan to build a statewide state-operated juvenile detention system has been initiated with six facilities currently operational in the counties of Breathitt, Campbell, Laurel, Warren, Adair and McCracken. In the 1998-2000 biennial budget he provided funds for one additional center in Boyd County as well as the expansion of the Breathitt County center. The Governor's 2000-2002 budget funded two more juvenile detention centers in Fayette and Hardin Counties. This gradual transition to a state-operated system through rate reimbursements to counties will relieve local governments from the fiscal burden of juvenile detention. Kentucky is now receiving federal funds previously denied as a result of the positive changes in our juvenile detention system.

D. Juvenile Delinquency Prevention – Eight local juvenile delinquency prevention councils across the state, representing 11 counties with the highest rate of juvenile arrests, were organized as a way to establish local planning and development of meaningful delinquency prevention programs. In fiscal year 2002-03 these councils funded 61 grants totaling over $2.3 million that provided early intervention, after-school services, mentoring programs, and family enhancement services.

E. Juvenile Accountability and Community Safety – Key components of Kentucky's improved juvenile justice system include stronger supervision of juveniles in the community, as well as graduated sanctions for violators. The Juvenile Intensive Supervision Team (JIST) Program teams local police officers and Department of Juvenile Justice community workers in efforts to monitor the actions of juveniles returning home from residential placements. Those found in violation of their probationary conditions may return to an out-of-home placement as a result of the revocation process. This program has contributed to a reduction in delinquent behavior and reduced crime in Kentucky communities.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Ishmon Burks, Secretary of the Justice Cabinet*** (ph. 564-7554); ***Ron Bishop, Commissioner, Department of Juvenile Justice*** (ph. 564-2738).

V. ***GOALS AND TIMEFRAME:*** Implementation of House Bill 117 was initiated on December 16, 1997, with the establishment of the Department of Juvenile Justice. The Governor's plan for a statewide juvenile detention system started with the opening of the Breathitt County center on December 1, 1997, followed by the opening of centers in Campbell and McCracken County, both on August 2, 1999. The detention center in Warren County opened in September 2001, and the Laurel County center opened March 2002. The Hardin and Boyd County Regional Detention Centers are scheduled for completion early in 2004 and the new facility in Fayette County is scheduled for the Spring of 2005.

On November 1, 1999, an additional 40 beds were created with the opening of the Cadet Leadership and Education Program, Kentucky's only juvenile boot camp program. To upgrade the department's residential facility bed capacity, an 80-bed state of the art secure facility to house the state's most violent juvenile offenders opened in Adair County in January 2001. A replacement facility for an existing residential program in Hardin County will serve to combine a residential program and detention program on a single campus. Three residential programs operating in Jefferson County will be replaced by a newly constructed facility capable of housing two 40-bed programs with shared administrative functions. Construction for the replacement facilities is underway with completion targeted for Spring 2004.

Governor Patton remains committed to improving Kentucky's juvenile justice system.

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5.6 Strengthened Law Enforcement

I. ***CHALLENGE:*** To improve the quality of law enforcement services provided to the citizens of Kentucky by better training officers and providing them with the tools necessary to provide enhanced public safety.

II. ***GOVERNOR PATTON'S POSITION:*** With safety being a critical issue for every Kentucky family, the Governor understands the need to provide new tools and innovative methods for policing Kentucky's communities. The Governor has long felt that police in Kentucky need better resources and support in order to more effectively perform their jobs. Additionally, he believes that improved and innovative selection standards and training for police officers will help Kentucky produce the finest law enforcement officers in the nation.

III. ***PROCESS AND APPROACH:*** The Governor has attacked the problem using basic concepts that will promote five specific goals: 1) ensure that the quality of police officers hired improves; 2) ensure enhanced and expanded police officer training; 3) ensure that police officers are sensitive to serving the community's needs; 4) ensure that police officers are capable of problem solving and forming partnerships that will actually solve crime problems; and 5) ensure that adequate training facilities and on-the-job resources for police officers of the Commonwealth are provided. The following summarizes the strategies and major accomplishments toward this goal:

- **Increases in Kentucky State Police (KSP) Salaries and Officer Complement:** The starting salary of a KSP trooper has been enhanced by 32 percent since the Governor took office in late 1995. The Governor won passage of a 43 percent increase in the 1998-2000 biennial budget for the KSP. A major portion of that money was used to increase KSP salaries in order to adequately compensate officers and to assist recruiting of qualified candidates. Over the 2000-2002 biennium, the authorized officer strength of the KSP increased by 70 troopers to an all-time high of 1,070 officers. This is the first increase since 1978. Despite current budget constraints, another salary increase of $1,000 was authorized by the General Assembly in the 2003 budget for those troopers making less than $60,000.

- **Training:** In 2002 KSP developed and instituted increased training that promotes professional development skills in troopers, detectives and supervisors. KSP sponsored its second annual Spanish Immersion

Training Class for sworn and telecommunication personnel. The Department is in its third year of the Sergeant's Leadership Academy, which trains first line supervisors in management, decision making, operational direction, and principles of leadership. KSP is currently involved with the Southern Police Institute to develop and implement a Lieutenant's Leadership Academy.

For the first time, KSP implemented a Law Enforcement Accelerated Program (LEAP) for cadets with prior law enforcement experience. This inaugural LEAP class reduced the traditional 22 weeks to 11 weeks and graduated 20 new officers in January 2003.

- **Geographical Information Systems (GIS):** KSP has begun utilizing GIS Mapping to enhance the agency's ability to more directly allocate resources and engage in problem solving policing. In order to help guarantee the safest travel throughout the Commonwealth, KSP and the Department of Transportation are currently making arrangements to supply this critical information to the rest of Kentucky Law Enforcement. KSP is currently involved in the planning stages of developing and implementing technology to make available GIS maps based on criminal offense data. In 2002 KSP further developed its Crime Mapping Unit within the Criminal Identification and Records Branch. Each post will begin placing Global Positioning System (GPS) coordinates on all case logs. Use of these coordinates allows for the development of real-time maps plotting Part I and Drug Related crimes to identify "hot spots" of activity in each Kentucky County.

- **Amber Alert:** Since December 2002, KSP has operated the "Kentucky Missing Child Project" to provide immediate information and assistance in search for abducted children. Included as the primary component of this Project is the AMBER Plan developed by the National Center for Missing and Exploited Children. What originally was a voluntary partnership between law enforcement and the media became an official state response as a result of House Bill 36, which was signed into law by Governor Patton in 2003.

- **Expanding Law Enforcement Training Incentives:** In the 1998 General Assembly the Governor advocated and won passage of a bill to increase by $500 per person the stipend that local law enforcement officers, including sheriffs and university police, may receive for participation in training through the Kentucky Law Enforcement Foundation Program Fund (KLEFPF). Additionally, the Governor increased the stipend by another $100 annually per officer through the budget approved during the 2000 legislative session. Governor Patton's efforts reflect the only increase made in the stipend amount since 1982.

- **Improved State Police Radio System:** Until recently, KSP had labored under an antiquated statewide radio system with pockets of inaccessibility where officers may be without radio coverage. The Governor advocated and won passage of a $20 million bond issue in the 1998-2000 budget and a supplemental $3.4 million in the 2000-2002 biennial budget to update and enhance the KSP radio system. In September 2001, KSP completed the installation of a powerful new statewide digital communications system. This system provides a lasting and dramatic impact on trooper and public safety by better facilitating daily as well as emergency operations and employee responsibilities.

- **Increased Automation:** In the last two biennial budgets, the Governor provided $7.2 million in capital expenditures for a new state of the art Automated Fingerprint Information System (AFIS), which gives investigators a valuable new tool to track criminal suspects. Through this funding, 108 AFIS machines, called Live Scans, have been installed in the state's jails, correctional facilities and the Northern Kentucky International Airport. Law enforcement, jail, and corrections personnel utilize the computerized AFIS technology to search for fingerprint information leading to the solving of current and past crimes. In addition, the LiveScan machines are being enhanced with digital camera equipment to collect additional fingerprint-supported pictures of offenders for identification and investigative needs. In 2002 KSP began providing free-of-charge 24-hour technical support to the AFIS location in county jails and state prisons. The Automated Fingerprint System with the LiveScans has aided in the detection of suspects in unsolved crimes. In 1998 when the new system was installed, 2000 suspects in unsolved crimes were identified. Currently the system identifies an average of 400 suspects in unsolved crimes per year.

- **Regional Community Oriented Police Institute:** Under the Governor's leadership, Eastern Kentucky University's College of Law Enforcement, Kentucky Association of Chiefs of Police, the state Department of Criminal Justice Training (DOCJT), and the Kentucky League of Cities formed a partnership for a federally-funded project aimed at providing numerous Community Oriented Police (COPS) training and problem solving classes throughout the state. The Institute also offers in-service training on community oriented policing and executive seminars.

During 2002 and 2003, KSP instituted a program to improve contacts with communities. Commanders and troopers developed community contacts to address crime and traffic concerns.

- **Construction of a new DOCJT Law Enforcement Training Complex:** The demands for DOCJT training has increased dramatically as a result of the expansion of basic training to 16 weeks, the inclusion of sheriffs and university police in KLEFPF, and peace officer certification requirements. To accommodate this greater need, Governor Patton won budget approval during the 1998 legislative session for a new training facility that includes classrooms, a 300-bed dormitory, a learning center, offices, and armory. In the 2000 Regular Session of the General Assembly, the Governor successfully supported funding for the addition of a law enforcement skills training area and improvements to the McKinney Skills Center to accommodate eight state of the art traffic simulators. These facilities have been completed and are now in use. The simulators are scheduled for installation in July 2003.

- **The New Basic Telecommunications Academy (120/160 Hours):** House Bill 406 passed by the 2003 General Assembly requires all new telecommunicators to complete a 120-hour Non-Criminal Justice Information System Basic Telecommunications Academy within 12 months of hire, or the 160-hour Criminal Justice Information System Basic Telecommunications training program within six months of hire. The effect of this law is to fully qualify all new telecommunicators at the beginning of their service. This Academy fully prepares telecommunicators to handle every type of call and emergency they can receive which will result in a substantial increase in officer safety, telecommunications efficiency and effectiveness.

- **The New 640 Hour Basic Training Program:** This program has been modified to incorporate facilitation type training based on a problem-solving model. This ensures that officers who graduate from the training program have problem solving skills, knowledge of resources available to them, and improved communication skills.

- **Standards for Law Enforcement Professionals:** As a result of Governor Patton's advocacy in the 1998 General Assembly, law enforcement officers must now meet certification requirements for employment and complete mandatory training to maintain certification through the Kentucky Law Enforcement Council. In March 2003, KSP received its accreditation certificate by meeting National Police Standards through the Commission on Accreditation for Law Enforcement Agencies (CALEA). In addition, KSP forensic laboratories are scheduled for certification in 2003 with the American Society of Crime Laboratory Accreditation Board (ASCLAB).

- **Kentucky Police Corps:** In 1998 Governor Patton designated the DOCJT as the lead agency for the federally funded Police Corps Program, which provides $30,000 college scholarships for select students who, upon graduation, serve as community patrol officers. The Governor has granted priority for the placement of these officers to those in the greatest need, specifically the more rural of Kentucky's 405 local law enforcement agencies.

- **Combating Racial Profiling:** Governor Patton has taken the initiative to address the issue of racial profiling by law enforcement agencies. As a result of his April 2000 Executive Order, a model policy prohibiting the use of race as the sole basis for the initiation of law enforcement activities has been developed and distributed to all state and local law enforcement agencies. At the Governor's direction, all state law enforcement agencies have adopted a policy prohibiting racial profiling, and the Kentucky Law Enforcement Council has strongly encouraged all local agencies to join in this effort. In response to the Governor's Executive Order, a data collection system has been designed to document every vehicle stop, and record the date, time and duration of the stop, location, reason for the stop, race, age and gender of the driver, race of the passengers, and the disposition of the stop. All state and local law enforcement officers have received training on the issue of racial profiling. The training is currently part of the Basic Training curriculum to ensure that all future officers receive training in this area. A research team coordinated through the Public University Research Consortium (PURC) of the Kentucky Criminal Justice Council has analyzed findings from the first year of data collection and released its report to the Criminal Justice Council in November 2002. The report included data collected on more than 310,000 stops from January 1, 2001, through December 31, 2001. The report is a preliminary analysis of vehicle stop information and it provides baseline information that has been developed for use as a management tool. The study is not sufficient to determine whether or not racial profiling occurs, but it can provide a means of monitoring police behaviors and the data collection process in and of itself may result in altered police behavior. Data collection is continuing. The report for the second year should be released in September 2003. The final report will be completed in the Summer of 2004. All state and local law enforcement officers received training on the issue of racial profiling by the end of calendar year 2001.

IV. ***LEADERSHIP AND CONTACT PERSONS:* *Ishmon Burks, Secretary of the Justice Cabinet*** (ph. 564-7554); ***Patrick N. Simpson, Commissioner, Kentucky State Police*** (ph. 695-6303); ***John W. Bizzack, Commissioner, Department of Criminal Justice Training*** (ph. 859-622-6165).

V. ***GOALS AND TIMEFRAME:*** Governor Patton remains committed to efficiently strengthening law enforcement efforts to aid in reducing crime and its costs to society.

5.7 Enhanced Penalties for Hate Crimes

I. ***CHALLENGE:*** To enforce, study and refine as necessary, legislation enacted by the 1998 General Assembly addressing hate crimes and to maintain the coordinated emergency response plan for dealing with church burnings in the Commonwealth.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton fervently believes that crimes committed because of the race, color, religion, sexual orientation, or national origins of victims are intolerable. Such crimes should be punished with the full force of the law to send a message that hatred has no place in Kentucky.

III. ***PROCESS AND APPROACH:*** The Governor proposed and supported hate crimes legislation in the 1998 Regular Session of the General Assembly. The Kentucky Criminal Justice Council has continued this effort, examining possible amendments to the newly enacted hate crimes statute, sponsoring legislative proposals to incorporate a penalty provision into existing law, and seeking methods to better collect data on the occurrence of these acts in Kentucky.

The 1998 enactment followed on the heels of a 1996 work group established by Governor Patton to respond to an outbreak of church burnings and racially motivated hate crimes across the South. This work group was comprised of representatives from the Office of the Governor, Office of the Attorney General, Justice Cabinet, Public Protection and Regulation Cabinet, Kentucky State Police, both U.S. Attorneys' Offices, Kentucky Police Chiefs' Association, Kentucky Sheriffs' Association, and Kentucky Fire Chiefs' Association. This work group was created in response to a meeting Governor Patton and Attorney General Ben Chandler had with President Clinton in Washington, D.C., on June 19, 1996. Governor Patton asked Attorney General Chandler to take the lead on this initiative.

The main product of the Governor's work group was the development of a coordinated emergency response plan between local, state, and federal law enforcement officials to immediately respond to any burning of a church in the Commonwealth. It is expected that within two to three hours of the report of a church burning, officials from the FBI, ATF, and KSP will be on the scene to investigate the fire. Representatives from the Office of the Governor and Office of the Attorney General will be kept closely informed of any such investigation. Federal funds in the amount of $372,600 were successfully obtained and distributed to 81 Kentucky county government awardees under the Church Arson Prevention Program. These funds paid for local hiring, overtime, and security measures.

Another outcome of this effort was the creation of a smaller work group comprised of representatives from the FBI, ATF, U.S. Attorney's Offices, KSP, Kentucky Fire Marshal's Office, Office of the Governor, and Office of the Attorney General. Recommendations by this group evolved into the proposals on hate crimes that passed the 1998 General Assembly as part of the Governor's Crime Bill (House Bill 455). Legislation enacted in KRS Chapter 532 prohibits "early release" of defendants whose motivating factor for the commission of the crime was "race, color, religion, sexual orientation, or national origin." Legislation enacted in KRS Chapter 525 also establishes a new class D Felony offense of "institutional vandalism," essentially criminalizing the vandalism, desecration, or defacing of houses of worship.

The communications staff of the KSP, FBI, Office of the Governor, and Office of the Attorney General developed public service announcements for airing on television and radio. These public service announcements publicized the ATF and KSP toll-free hotlines for the reporting of information on church burnings and other hate-related crimes. They also sent a strong message that any person who commits such an act will experience the full force and weight of the federal and state governments to find, prosecute and convict them.

Letters from Governor Patton and Attorney General Chandler, along with a copy of the "Church Threat Assessment Guide" prepared by the Bureau of Alcohol, Tobacco and Firearms, were mailed in 1996 to law enforcement officials and well over 500 African-American ministers and churches throughout Kentucky. This document contained information and suggestions for protecting churches and publicizes ATF and KSP toll-free numbers.

During the 2000 General Assembly, several pieces of hate crime legislation were submitted. With the passage of House Bill 439, hate crimes can now include a charge of Assault Fourth Degree, which impacts the sentencing, probation, parole, or other early release of the offender.

In November 2001, the Council reconvened the Hate Crime Statistics Work Group to review and monitor data on hate crimes reported to law enforcement and to develop a mechanism for collection of anecdotal information on hate incidents in Kentucky. As part of its renewed charge, the Hate Crime Statistics Work Group broadened its activities beyond data collection and legislation to include reviewing existing education programs for youth and raising public awareness about the nature of bias-motivated crime. In January 2002, the work group issued its first annual report on hate crime entitled, *Hate Crime and Hate Incidents in the Commonwealth of Kentucky: A Report of the Hate Crime Statistics Work Group of the Kentucky Criminal Justice Council.* The report combines data from law enforcement, newspaper articles, complaints received by human rights organizations, and anecdotal reports to provide a comprehensive picture of hate crime in the Commonwealth and serves to inform both the public and state policy. The work group plans to publish the next annual report in November 2003.

In the aftermath of the September 11, 2001, terrorist attack, KSP joined with other law enforcement agencies throughout the country in assessing their ability to adequately respond to future terrorism. In response, KSP established a full-time Counter-Terrorism Coordinator Position. This position, along with the State's Office for Security Coordination from the Department for Military Affairs, immediately began to work together to enhance the Commonwealth's overall ability to provide protection to our citizens. The responsibilities of the KSP Counter-Terrorism Coordinator have consisted of planning and coordinating efforts with other state and local agencies. Also, since inception, the KSP Counter-Terrorism Coordinator has established direct lines of communication with the FBI, the U.S. Attorney's Offices, and other Federal law enforcement agencies. This coordination and communication among Kentucky public safety agencies has fostered a continuous exchange of intelligence information that will facilitate any investigations that are initiated from this point by KSP or other law enforcement.

VI. ***LEADERSHIP AND CONTACT PERSONS: Denis Fleming, General Counsel to the Governor*** (ph. 564-2611); ***Ishmon Burks, Secretary of the Justice Cabinet*** (ph. 564-7554); ***Patrick N. Simpson, Commissioner, Kentucky State Police*** (ph. 695-6303).

V. ***GOALS AND TIMEFRAME:*** Hate crime legislation was enacted by the 1998 General Assembly and was effective July 15, 1998. The emergency response plan remains in place. The Hate Crime Statistics Work Group of the Kentucky Criminal Justice Council meets on an ongoing basis.

REDUCING CRIME AND ITS COSTS TO SOCIETY

5.8 Prescription Drug Tracking Initiative

I. ***CHALLENGE:*** To implement a prescription drug tracking system to reduce and eliminate prescription drug fraud and abuse. This system will allow for increased enforcement and monitoring of all prescription drugs in the Commonwealth.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton worked closely with the Cabinet for Health Services, the Justice Cabinet, law enforcement, the Board of Pharmacy, and the Medical Licensure Board for passage of legislation in the 1998 legislative session that strengthened the monitoring and tracking of the dispensing of prescription drugs. In addition to the passage of the legislation, the Governor placed nearly $1 million in each year of the biennial budget for the Department of Public Health to fund the Kentucky All Schedule Prescription Electronic Report System (KASPER) System. The KASPER System was designed to collect data reporting the dispensing of Schedule II-V drugs by pharmacies, dispensing physicians, dispensing veterinarians, or other Kentucky licensed dispensers.

In February 2001 Governor Patton became alarmed by reports of abuse of the prescription painkiller Oxycontin. As many as 20 deaths in Eastern Kentucky were attributed to abuse of the drug. Governor Patton formed the Oxycontin Task Force to make recommendations aimed at reducing the abuse of prescription drugs in Kentucky.

III. ***PROCESS AND APPROACH:*** The Governor's bill made numerous changes to Kentucky's drug laws, KRS 217.005-217.215 and KRS 218A. The changes fall into four categories:

- New crimes for legend drugs, controlled substances, and prescription blanks;
- An electronic monitoring system for prescription controlled substances;
- The use of security paper for prescription blanks for controlled substances; and
- Record-keeping provisions to the Controlled Substances Act.

To capitalize on the current interest in prescription drug abuse and to take advantage of the opportunity provided by new laws, the Cabinet for Health

Services' Drug Control Branch worked with the Office of the Attorney General to develop training sessions for law enforcement personnel, prosecutors, and judges. By increasing awareness of the new crimes, more prosecutors and judges now understand the dangers associated with prescription drugs and more violators are being prosecuted.

In addition to the justice system, health professionals have been targeted for drug education. The Drug Control Branch works with the various licensing boards and professional associations to inform physicians, dentists, veterinarians, pharmacists, nurses, and others about the misuse of prescription drugs. Journal articles, letters, booklets, and continuing education programs are also part of the program.

After extensive study the Governor's Oxycontin Task Force made a number of recommendations to strengthen the dispensing of Oxycontin and other controlled prescription drugs, which were embodied in House Bill 174 during the 2002 Regular Session of the General Assembly. This Bill recommended improvements to KASPER in order to make the monitoring system more timely and placed a high emphasis on educating and training medical, pharmaceutical and law enforcement personnel.

In the 2002 Regular Session of the General Assembly a primary legislative proposal of the Oxycontin Task Force was to strengthen the identification process for individuals picking up prescriptions. House Bill 371, sponsored by Task Force member Representative Robin Webb, required a pharmacist or pharmacist employee to identify the presenter or a third party receiving the prescribed drugs by presenting a government issued identification. The bill did not pass due to equity issues associated with in-state, out-of-state, and mail order pharmacies verification requirements and was committed to the Senate Judiciary Committee for study. The General Assembly appropriated $250,000 per year from monies allocated to the Kentucky Agency for Substance Program (KY-ASAP) program to strengthen KASPER. The 2003 General Assembly appropriated $1.4 million in order to enhance the capabilities of the KASPER program to provide the agency and its users with real time information.

In response to these recommendations, KSP expanded its focus on illegal drug activity by creating a stand alone Drug Control Branch in 2001. In September 2002, KSP underwent a second organizational change. The Special Enforcement Troop was created which promoted closer interaction and intelligence sharing among Drug Enforcement, Special Operations, Special Investigation, and Cannabis Suppression operations. This Special Enforcement Troop will not only continue the Department's intensive response to Oxycontin and other abused prescription drugs, but also foster a more coordinated approach among the 16 KSP command posts when responding to the overall illegal drug situation in the Commonwealth. The new KSP Special Enforcement Troop has also shown signs of being in a better position to coordinate with local pharmaceutical manufacturers reducing abuse at the manufacturing, marketing, distribution, and retail levels. KSP also enhanced its ability in 2002 to respond to illegal drug activity in the Commonwealth by developing a drug threat assessment team, and an up-to-date statewide drug threat assessment by which to plan operations. Intelligence and coordination on illegal drug activity was developed with regional and multi-state/jurisdictional task forces and the agency's Drug Enforcement Branches. Along with this new designation of drug intelligence analysis, the Department developed a new intelligence report on all illegal drug activity, improving communication within the agency and between KSP and local and federal law enforcement agencies.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Denis Fleming, General Counsel to the Governor*** (ph. 564-2611); ***Danna Droz, Drug Control Branch, Cabinet for Health Services*** (ph. 564-7985); ***Ishmon Burks, Secretary of the Justice Cabinet*** (ph. 564-7554); ***Patrick N. Simpson, Commissioner, Kentucky State Police*** (ph. 695-6303).

IV. ***GOALS AND TIMEFRAME:*** The amended required prescription blanks are in general use and the electronic monitoring program is operational. Results determining the success of the new program have been better than initially expected.

REDUCING CRIME AND ITS COSTS TO SOCIETY

5.9 Homeland Security

I. ***CHALLENGE:*** Many people and organizations across the Commonwealth have taken enormous steps to enhance our security since the terrorist attacks on September 11, 2001, but the fight is far from over. We must stay vigilant and focused on the terrorist threat not only here in the Commonwealth, but with our adjoining neighbors. Because we have transparent borders and a mutual dependence on our neighbors, an attack on one will mean an attack on us all. The coordination of federal, state, local, and private efforts must be synchronized to ensure interoperability and mutual support among all agencies.

II. ***GOVERNOR PATTON'S POSITION:*** At Governor Patton's direction, the Kentucky Office for Security Coordination (OSC) was formed to assist the Adjutant General and the Governor's Office in an effort to prepare the Commonwealth for potential attacks and to coordinate Homeland Security initiatives. OSC is establishing processes to organize efforts and resources and coordinate guidance to help prioritize the work ahead. Because the situation is fluid and national priorities and resources may change, our goals and objectives will be amended over time. We must remain flexible and innovative as we adapt to the new era of domestic and international terrorists.

III. ***PROCESS AND APPROACH:***

Process: OSC coordinates the Executive Branch's efforts to secure and protect people, assets, and facilities within the Commonwealth. The office will also coordinate the following:

A. Development of a State Homeland Security Strategy.

B. Coordinate with federal, state, and local law enforcement agencies for current intelligence "Warnings and Indicators." Then develop an efficient "means of conveyance" for a statewide alert and notification process.

C. Coordinate with the U.S. Department of Homeland Security on the "Threat Advisory System" and associated protective measures.

D. Coordinate with the U.S. Department of Homeland Security on National issues that affect the Commonwealth, as well as State issues that need national attention.

E. Coordinate, integrate, and track all Federal grant programs that assist in efforts to prevent and prepare for terrorist attacks.

F. Coordinate, integrate, and track “Terrorism Outreach and Awareness” programs.

G. Coordinate and standardize “Anti-Terrorism” education requirements.

H. Coordinate and assist in State “Criticality and Vulnerability Assessments.”

I. Assist in the identification of “Dependencies and Vulnerabilities” during the assessment process.

J. Coordinate with emergency management agencies for the preparedness, reliability and continuity of vital services, functions and critical infrastructure.

K. Assist in efforts to enhance “Volunteerism” across the Commonwealth.

L. Develop issues and coordinate options.

M. Help build bridges to interagency coordination and cooperation.

Approach: The strategic objectives of homeland security in order of priority are to:

A. *Reduce the risk that an attack will occur*. Detect – Deter – Deny – Defend – Defeat. Emphasis on intelligence gathering, analysis and sharing with all law enforcement agencies.

B. *Reduce the severity of an attack*. Identify vulnerabilities and dependencies and then apply mitigation factors to minimize the effects, and affects, of a successful attack. Emphasis on “government, emergency services, and business continuity of operations.”

C. *Recover from attacks that do occur*. Preparing to respond to attacks and our ability to restore and reconstitute critical infrastructure. Emphasis on the development and updating of “crisis response” and “consequence management” plans.

IV. ***LEADERSHIP AND CONTACT PERSONS:*** ***Major General D. Allen Youngman, The Adjutant General*** (ph. 607-1558); ***Ray Nelson, Executive Director, Office for Security Coordination*** (ph. 607-1826).

For additional information on Kentucky's Homeland Security, visit our website at: http://homeland.ky.gov.

V. ***GOALS AND TIMEFRAME:*** Governor Patton is committed to preparing Kentucky state government to meet the needs of its citizens should a terrorist attack occur in Kentucky. Although there are issues that must be addressed immediately, the road to '*readiness and preparedness'* is a long one. We must assess at our ability to sustain our efforts over the long haul and approach change in a methodical and problematic manner. The three imperatives that will drive our efforts are: cooperation – coordination – communication.

Improving Quality of Life

Improving Quality of Life

- Renaissance Kentucky
- Water Resources Development Plan
- Artistic, Cultural, and Heritage Development
- Environmental Initiatives
  - Illegal Dump Enforcement
  - Large Animal Feeding Regulations
  - Solid Waste Legislation
- Energy Policy
- Forestry Initiative
- Smart Growth Strategy
- Security and Public Safety/ Transportation

IMPROVING QUALITY OF LIFE

6.1 Renaissance Kentucky

I. ***CHALLENGE:*** Many Kentucky downtowns lost their economic vitality when businesses moved outside of our cities to attract residents in outlying subdivisions. We are now recognizing and appreciating the aesthetic values and potential of our rundown or abandoned downtowns. Renaissance Kentucky is a program to revitalize downtowns by renewing pride in our downtown centers, attracting new businesses and jobs, promoting tourism, and encouraging cultural growth. Renaissance Kentucky additionally encourages the development of attractive housing in downtown centers.

II. ***GOVERNOR PATTON'S POSITION:*** Before our cities can create successful redevelopment, they need assistance in locating funding sources and working through the maze of regulatory requirements. By bringing public and private resources, expertise and incentives together, Governor Patton believes Kentucky can take a more holistic approach in solving the problems of transportation, housing, water and sewer systems, business development, and service delivery in cities.

III. ***PROCESS AND APPROACH:*** Governor Patton recognizes that our communities' problems are multifaceted and the resources to solve those problems are often separated by organization, purpose and function. He also recognizes that a vibrant main street area is an important component for attracting new jobs in Kentucky communities. To address the issue of redevelopment of our cities, Governor Patton formed the Renaissance Kentucky Committee in 1996. This committee was comprised of local, state, federal, private, and nonprofit representatives whose goal was to address the issues relating to downtown redevelopment and to issue recommendations to the governor on the most efficient approach to assisting our cities. Governor Patton endorsed the recommendations of the committee to enhance existing efforts through a holistic, concentrated initiative to provide resources and expertise to a designated Renaissance community.

An alliance was formed, consisting of Kentucky Housing Corporation (KHC), as lead agency; the Department for Local Government; Fannie Mae; the Federal Home Loan Bank of Cincinnati, the Kentucky Heritage Council, the Kentucky League of Cities, and the Kentucky Transportation Cabinet to assist Renaissance communities with their redevelopment visions. To gain involvement at all possible levels of state government, Governor Patton has appointed a Renaissance representative from each cabinet to serve as an informational and/or financing resource to Renaissance communities. Since the beginning of the initiative, $25.3 million in federal transportation enhancement funds have been awarded to Kentucky's Renaissance cities for streetscape improvements. Additionally, $6 million in state funds were appropriated by the 1998 General Assembly for infrastructure planning, utility relocation and façade improvements. The 2000 General Assembly approved funding for the 2000-2002 biennium in the amount of $12 million. This appropriation was not restricted to specific purposes and allowed the communities to be more flexible in their planning. The 2003 General Assembly continued funding in the amount of $6 million. Governor Patton has also asked the Finance and Administration Cabinet to give downtown locations priority consideration for state office sites, where appropriate and feasible.

IV. ***LEADERSHIP AND CONTACT PERSONS: F. Lynn Luallen, Renaissance Kentucky Chair and Chief Executive Officer, Kentucky Housing Corporation*** (ph. 564-4982); ***Jody Lassiter***, ***Commissioner, Department for Local Government*** (ph. 573-2382); ***Brenda Weaver, Director, Fannie Mae, Kentucky Partnership Office*** (ph. 859-226-5140); ***David Morgan***, ***Executive Director and State Historic Preservation Officer, Kentucky Heritage Council*** (ph. 564-7005); ***Sylvia Lovely, Executive Director, Kentucky League of Cities*** (ph. 859-323-4552); ***Carol M. Peterson, Vice President, Federal Home Loan Bank of Cincinnati*** (ph. 513-852-7615); ***James C. Codell, III, Secretary of the Transportation Cabinet*** (ph. 564-3730).

V. ***GOALS AND TIMEFRAMES:*** The criteria to become a designated Renaissance community were initially announced to the public through a series of statewide workshops during April and May 1998. Written proposals were accepted on July 1, 1998. Ninety-seven communities have participated in total funds allocated of $113 million since inception of the program. It is the goal of the Alliance to assist each community in locating funding sources through development of a city-specific team to include representatives from state government and other appropriate federal or private resources.

A Renaissance Resource Guide outlining federal and state-funding resources has been produced and distributed, and is available through KHC.

IMPROVING QUALITY OF LIFE

6.2 Water Resources Development Plan

I. ***CHALLENGE:*** To assure access to safe drinking water to all Kentuckians by 2020, and to re-emphasize that service quality, reliability, and affordability are the core purposes of public utilities and consequently, every means to achieve economies of scale to the consumers benefit are fair game.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton posits and has acted to achieve the premise that access to safe drinking water is a right of every Kentuckian. Recognizing that many regions of the Commonwealth have an ample supply of ground or well water, much of Kentucky must rely on water utilities to provide safe drinking water for both human consumption as well as for developmental purposes. In 1996 Governor Patton established the Water Resources Development Commission, the first statewide summit of leaders in utility service in Kentucky, and charged the Commission to develop a statewide water services delivery plan as a major initiative for his administration, and one critical to improving the quality of life in the state. The Commission completed Phase I of the planning process in June 1999 consisting of a detailed statewide inventory of utility-system infrastructure, organization, and operations. That information, together with a variety of geographic and other contextual data, was compiled in an electronic mapping tool, a geographic information system (GIS). This system offers state of the art ability to manage large amounts of information for utility infrastructure planning purposes, plus an unprecedented level of access to other users. Phase II of the planning process consisted of data analysis and a Statewide Water Resource Development Plan – a comprehensive planning schematic which was delivered to the Governor in the Fall of 1999. Early in the process it was recognized that extension of water service often results in unintended stress to the environmental balance brought on by the volume of wastewater. In true form, the Governor took this into consideration and directed all involved to remain focused on drinking water but to begin to assess the need and to propose appropriate responses to the wastewater issues facing the Commonwealth.

III. ***PROCESS AND APPROACH:*** In a true bipartisan effort, Governor Patton won passage of landmark water resources development legislation in the 2000 Regular Session of the General Assembly. The Governor's bill, Senate Bill 409, retooled the existing broad jurisdiction of the Kentucky Infrastructure Authority (KIA) and created a new account within the KIA to be used solely for water expansion projects ("the 2020 Account," so named in reference to the Governor's goal of assuring access to safe drinking water to all Kentuckians by the year 2020). Moreover, Senate Bill 409, which amended KRS 151 and KRS 224A, establishes a systemic approach to comprehensive, community-based, water resources planning in Kentucky, encourages regionalization of water resources where appropriate, allows for debt forgiveness for troubled water systems if they participate in utilities consolidation, and allows the KIA to assist in the hiring of water planners at the regional level. As a result of the legislation and the Governor's ever-present interest in this initiative, all state agencies involved with water are now sharing data and information via the GIS-based Water Resource Information System (WRIS), and all Kentucky communities are engaged in development of an Area Water Management Plan, dealing with water sources, drinking water facilities, and wastewater facilities. Simultaneously, all environmental and regulatory agencies and funding agencies, both state and federal, are participating in the Kentucky eClearinghouse process which allows an applicant-community to submit a proposed project electronically one time and have the project be reviewed simultaneously by all agencies.

Despite continuing difficult economic circumstances, Governor Patton and the Kentucky General Assembly have consistently and significantly advanced the Commonwealth's investment in infrastructure as an investment in its citizens! The 2000-2002 biennial budget allocated nearly $157 million for water projects throughout the state, with $50 million of this going to the new "2020 Account." Many of these projects are now under construction, and many more are soon to begin construction. The 2002-2004 biennial budget allocated General Funds for debt service on bonds, the proceeds of which will be used to match federal funds. Additionally, a Water and Sewer Resources Development Fund was created for infrastructure projects in Coal Counties and an identical Fund with the same purpose was created for Tobacco Counties. In all, the 2002-2004 biennial budget provided $172.2 million for investment in water and wastewater projects directly benefiting Kentucky communities. State funds accounted for $137.2 million. Federal funds included $26 million in community development block grants and $9 million from the Appalachian Regional Commission.

IV. ***LEADERSHIP AND CONTACT PERSONS: Roger Recktenwald, Executive Director, Kentucky Infrastructure Authority*** (502-573-0260); ***Ed Ford, Secretary of the Governor's Executive Cabinet*** (502-564-2611).

V. ***GOAL AND TIMEFRAME:*** Community-based infrastructure planning continues throughout the Commonwealth, the WRIS becomes more widely used daily, the July 2003 roll-out of the Kentucky eClearinghouse, the implementation of the new Kentucky Uniform System of Accounting and institution of cost based rates – all advance Governor Patton's intent to re-structure and revitalize the water services delivery system in the Commonwealth. In turn, these activities advance his central, quality of life goal, namely, 'access to safe drinking water for all Kentuckians by 2020.'

IMPROVING QUALITY OF LIFE

6.3 Artistic, Cultural and Heritage Development

I. ***CHALLENGE:*** To assure all citizens a higher quality of life by providing diverse opportunities to appreciate, and participate in, the Commonwealth's culture and heritage; and to promote and develop Kentucky's cultural, historical and natural assets as tools for long-term economic and tourism development.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton believes that development of arts and cultural facilities and activities is essential to improving the quality of life in Kentucky. He is committed to new and innovative ways to bring the arts to the people of the state. For example, the Governor and Mrs. Patton initiated the program "In Performance at the Governor's Mansion," a KET production of the best in Kentucky arts which includes Kentucky Visions, an annual visual arts exhibition in the Governor's Mansion. Now in the seventh year, "In Performance" continues with the generous support of Ashland, Inc. The series is taken on the road once a year – in 1998 to Somerset's new performance hall at the Center for Rural Economic Development, in 1999 to the River Park Center in Owensboro, in 2000 to the Mountain Arts Center in Prestonsburg, in 2001 to the Madisonville Fine Arts Center, in 2002 to the newly remodeled Paramount Arts Center in Ashland, and in 2003 to the Kentucky Center in Louisville. These performance centers are all part of the Arts Presenters Network coordinated by the Kentucky Center – which includes a total of 12 centers statewide – all important generators for regional economic and tourism development.

The Kentucky History Center in Frankfort, home of Kentucky's historical artifacts, opened in April 1999 and has already hosted over one million visitors. The History Center serves as a critical component of Kentucky's education reform efforts by providing students with an authentic, interactive method to learn about the rich history of their state and by providing professional development for Kentucky teachers. Governor Patton supports other cultural and heritage developments such as Kentucky's Civil War Heritage Trail, the National Quilt Museum in Paducah, the Kentucky Artisan Center in Berea, and the Kentucky Center for African-American Heritage in Louisville. These new developments are critical to regional economies, tourism, and quality of life.

III. ***PROCESS AND APPROACH:*** Governor Patton helped secure private funding for the "In Performance" series assuring the continued presentation of high quality Kentucky arts at no additional cost to taxpayers. He also provided funding for several important additions and enhancements to arts, heritage and cultural facilities through community development grants and transportation enhancement funds. Some recent major projects funded include the Iroquois Amphitheater in Louisville, the School of Craft in Hindman, the Kentucky Underground Railroad Museum in Maysville, and the Four Rivers Performing Arts Center in Paducah. In addition, Governor Patton continues to focus a significant portion of the federal transportation enhancement funds on qualified local heritage projects.

In the spirit of effective and efficient government, the Education, Arts and Humanities Cabinet, in collaboration with the Tourism Development Cabinet, supported the development of a Kentucky Cultural Heritage Tourism Strategic Plan. Implementation of the plan will strengthen education, arts, and heritage programs and continue to link the state's cultural, heritage, and natural resources to the Commonwealth's economic development and quality of life.

Governor Patton has consistently supported increases in funding for the Governors' Scholars Program, an intensive summer residential academic and personal growth program for academically talented rising seniors in high school. Recognizing the importance of providing a parallel program for Kentucky's artistically gifted high school rising juniors and seniors, the Governor also supported increased funding for the Governor's School for the Arts in the 2000-2002 biennial budget.

IV. ***LEADERSHIP AND CONTACT PERSONS: Marlene M. Helm, Secretary of the Education, Arts and Humanities Cabinet*** (ph. 564-0372).

V. ***GOALS AND TIMEFRAME:*** The Governor's commitment to education, heritage, and the arts has been consistent and unwavering. He is committed to providing the resources, creating the partnerships, and promoting the vision that ensures continued growth and access to Kentucky's rich and diverse arts, culture and heritage.

IMPROVING QUALITY OF LIFE

6.4 Environmental Initiatives

I. ***CHALLENGE:*** To protect Kentucky's environment and the quality of life of its citizens while promoting sustainable development of its natural resources, its potential for tourism development and accommodating future growth.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has pursued a policy of promoting the sustainable development of Kentucky's natural resources which provides jobs for Kentuckians and is protective of the environment. There are numerous obstacles to this policy: thousands of straight sewer pipes, illegal waste dumps, waste tire dumps, and hundreds of old solid waste landfills that pollute Kentucky's water, land and air resources. Large "industrial scale" animal feeding operations face the challenge of managing waste. Between 2000 and 2002, a proliferation of applications for new power plants in the Commonwealth caused Governor Patton to issue an executive order creating a moratorium on permits. Governor Patton also created the Kentucky Energy Policy Advisory Board to study the power plant siting and electrical generation issue before the 2002 Legislature convened. This led to the passage of Senate Bill 257 to address the siting of power plants. The bill creates the Kentucky State Board on Electric Generation and Transmission Siting that will review applications for new merchant electric generating facilities. The bill also contained various setback requirements for proximity to residential neighborhoods, schools, hospitals, etc. The Governor has made cleaning up Kentucky a priority of his administration and has ordered agencies such as the Natural Resources and Environmental Protection Cabinet to initiate programs to address waste management issues. Governor Patton believes the prevention and elimination of straight pipes will provide a healthier environment and make Kentucky more attractive for tourism and economic development. Governor Patton also recognizes there are unique, natural areas, such as Pine Mountain, Black Mountain, and Blanton Forest that are threatened by development and must be protected for future generations.

II. ***PROCESS AND APPROACH:***

Illegal Dump Enforcement: Over the past seven years Governor Patton directed the Natural Resources and Environmental Protection Cabinet to attack the problem of waste management in the state. During that time, the cabinet has partnered with Congressman Hal Rogers for the Eastern Kentucky PRIDE program and has partnered with Congressman Ernie Fletcher for the Bluegrass PRIDE program. PRIDE stands for Personal Responsibility In a Desirable Environment. This program targets illegal dumps and the elimination of straight pipes. In 2001 Governor Patton also ordered the Natural Resources and Environmental Protection Cabinet to create the Kentucky Certified Clean Counties program. This program creates a matching fund for counties with mandatory garbage collection ordinances to pay for the clean up of illegal dumps. By 2003, five counties have been certified as clean counties while seven others are working to obtain their certification. Locating and cleaning up illegal dumps has been a priority of the Patton Administration. Since April 1997 cabinet inspectors have investigated more than 6,700 illegal dumps, resulting in almost 4,000 Notices of Violation being issued to the person(s) responsible for the dump. More than 3,100 of these illegal dumps have been cleaned up under the cabinet's program.

Governor Patton's Water Resources Plan to provide potable water to all Kentuckians continues to produce benefits. The 2002-2004 Appropriations Bill, together with federal matching funds, provides funding of $172.2 million for water and sewer projects ($137.2 million in state funds, $26 million in community development block grant funds, and $9 million in Appalachian Regional Commission funds). More than 260 projects, expansions and upgrades of water and sewer plants, are now being planned. An additional 700,000 households will get improved water service as a result of these projects.

Large Animal Feeding Regulations: In 1997, Governor Patton ordered the cabinet to suspend permit applications for swine waste-handling operations in Kentucky, due to concerns over environmental issues with animal waste. Since 1997 the cabinet has promulgated numerous administrative regulations to address Concentrated Animal Feeding Operations (CAFO's). The General Assembly has repeatedly found the regulations to be deficient. In 2001 the cabinet challenged the process of the review of administrative regulations by the legislature with a lawsuit. The suit is still pending. The 2002 General Assembly passed House Bill 728 that prohibits the cabinet from introducing new regulations that are similar to previous regulations. In 2003 the federal Environmental Protection Agency published new rules for CAFO's. It is estimated that approximately 160 operations in Kentucky will be defined as CAFO's under the new federal rules, primarily poultry and swine operations.

Solid Waste Legislation: In 2002 Governor Patton signed into law House Bill 174 to address the solid waste problems of old landfills, illegal dumps, roadside litter and environmental education. The legislation develops environmentally sound methods of managing, reducing, collecting, transporting and disposing of solid waste. The Kentucky PRIDE Fund was created by the bill to fund solutions for old landfills, to eliminate illegal dumps in partnerships with counties, for anti-litter control programs, and for environmental education programs.

Work also continues on the creation of Kentucky's first linear state park. The Pine Mountain Linear State Park will be 120 miles long and 1,000 feet wide and will run from Elkhorn City to Pineville.

The 2002 legislature also passed House Bill 422 that extends the collection of the waste tire fee of $1 for new tires purchased. The funds are used to clean up waste tire piles and pay for waste tire collection programs in each county. By the end of 2003, more than 40 counties will have collected waste tires through this program.

House Bill 244 was also passed by the 2002 Legislature. The bill extends the collection of the fee, paid by producers of hazardous waste in the state, to June 30, 2004. The fee will continue to be used to clean up hundreds of hazardous waste sites across the state.

Governor Patton has also provided leadership in preserving unique ecological treasures in the Commonwealth. In May 2002 the state compensated mineral owners for their right to mine coal near the Pine Mountain Settlement School in Harlan County. A 2,364-acre area, declared off-limits to mining, adjoins land that could become a part of the Pine Mountain Trail State Park.

The cleanup of the Paducah Gaseous Diffusion Plant has been a priority of the Patton Administration. The Natural Resources and Environmental Protection Cabinet has worked closely with the federal Environmental Protection Agency and the Department of Energy to bring about meaningful cleanup actions at the plant. In 2003 all three parties signed an agreement resolving disputes over the Site Management Plan. Concerns remain, however, over the allocation of cleanup funds by the Department of Energy.

IV. ***LEADERSHIP AND CONTACT PERSON: Henry C. List, Secretary of the Natural Resources and Environmental Protection Cabinet*** (ph. 564-3350).

V. ***GOALS AND TIMEFRAME:*** The Governor is committed to protecting Kentucky's environment, its unique natural areas and the beauty of its landscape, while at the same time providing a framework for future growth. Cleaning up Kentucky will remain a high priority as well as a long-term commitment from the state. Through solid waste legislation, the course has been set for the next few years to clean up illegal dumps, stop pollution from old landfills, eliminate roadside litter and teach children, as well as adults, the importance of a clean Kentucky. New steps will be taken to provide planned growth for the needs of Kentucky's citizens, including technologies such as cellular telephones and electricity.

IMPROVING QUALITY OF LIFE

6.5 Energy Policy

I. ***CHALLENGE:*** Through effective partnerships, the Kentucky Energy Policy Advisory Board (KEPAB) was established in May 2001 to develop a statewide energy policy. KEPAB was charged with setting long-term standards for energy stewardship, while balancing the needs of environmental protection and economic growth for the Commonwealth.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton has pursued a policy of promoting the economic development and utilization of Kentucky's energy resources while protecting the environment and enhancing the quality of life for the citizens of the Commonwealth.

As a result of increased energy demand and advances in technology, rapid change in all sectors of the energy industry has occurred. Very importantly, the U.S. electricity sector, which has traditionally consisted of regulated monopolies, is moving from a local market focus toward regional markets. As a result, a robust regional wholesale market has developed and a merchant power plant industry has emerged. Between September 1998 and January 2002, 25 merchant power plants requested permits to locate in the state. There were also four non-merchant (regulated utilities) plant requests for permits.

The cumulative impact on the state's electricity infrastructure and on Kentucky's environment was unknown. In addition, the nation's aging transmission system was not designed to handle the additional capacity requirements resulting from the regionalization of electricity markets. Also, the regionalization of markets requires that electric power be traded across broad areas of the country, complicating how states respond to the siting of new merchant electric generation plants. Finally, the planning, upgrading and siting of new transmission infrastructure has become more challenging.

Domestic and international energy trends will continue to, directly and indirectly, impact Kentucky's energy sector. In fact, the U.S. Congress is currently considering national energy policy legislation. The Governor continues to promote a proactive approach to environmentally sensitive technologies, research and development, and is a committed advocate of the creation of a long-term energy strategy for the state that will allow Kentucky to reach its highest attainable energy goals now and in future decades. The Commonwealth must have a long-term energy plan that seeks to maintain

Kentucky's low cost energy competitive advantage and promote utilization and development of the state's natural energy resources.

III. ***PROCESS AND APPROACH:*** The Governor created the KEPAB by executive order on May 16, 2001. The KEPAB held numerous board meetings, hearing from a variety of experts from the regulated and non-regulated electricity generation industry on the issues of power plant siting and nitrogen oxide (NOx) allowance allocation. In addition, the KEPAB created two subcommittees to study the siting and NOx issues and provide policy recommendations to the Governor. The subcommittee on siting outlined the criteria that should be included in any legislative package pertaining to the siting of electric power generation, transmission interconnection, and utility asset transfers. After intense debate in the 2002 Regular Session of the General Assembly, Governor Patton signed into law Senate Bill 257, which established siting criteria for merchant electric power generation plants. Senate Bill 257 set specific setback requirements from nursing homes, residential neighborhoods, and churches. In addition, Senate Bill 257 requires a siting board review of proposed projects and a cumulative assessment of the environmental impact of new generation upon the Commonwealth.

In an effort to maximize the value of air emission allowances that the state receives from the U.S. Environmental Protection Agency (EPA), the KEPAB NOx subcommittee recommended and Governor Patton agreed that 5 percent of the total allocation, or the new generation source allowances, be sold on the emissions trading market, as it would not affect the price of electricity for existing ratepayers. In May 2003, a revised State Implementation Plan for NOx was submitted to EPA. The revised regulations, allowing for sale of 5 percent of the new source set aside for NOx, went into effect on July 24, 2003. It is estimated that the sale of these audits will net approximately $20 million to the state.

The KEPAB also played an important role in identifying and expressing the concerns of the states and regions concerning national energy policy. The Federal Energy Regulatory Commission (FERC), in its drive to create and expand regional wholesale electricity markets, has issued proposed rules that threaten to pre-empt state responsibility for ensuring adequate and reliable power for its citizens and for the siting of power plants and transmission lines. Governor Patton, with the assistance of the KEPAB, hosted a two-day conference in Louisville, titled the "Standard Market Design: A National Discussion with Energy Policy Decision Makers." At the conclusion of the conference, energy policy leaders in four regions reported to Governor Patton the concerns of their regions and asked that he convey these to the Chairman of FERC.

In May of 2002, Governor Patton directed KEPAB to develop a long-term energy plan for the Commonwealth. Five subcommittees: coal, nuclear, natural gas and petroleum, energy efficiency and alternative energy, and electricity were created. A core writing team was also utilized to refine the information received from stakeholders and the subcommittees. In addition, a team of experts from the University of Kentucky studied the energy trends over the next 20 years and the potential impact on Kentucky's energy future. An Interim Report was prepared at the end of 2002 detailing the many recommendations of the five KEPAB subcommittees.

IV. ***LEADERSHIP AND CONTACT PERSON: Tom Dorman, Executive Director, Public Service Commission*** (ph. 564-3940).

V. ***GOALS AND TIMEFRAME:*** Governor Patton directed that the new source NOx allowances be sold in the emission trading market. The purpose of the sale is to ensure the most economically effective means of managing this state asset so those proceeds to the state are maximized without increasing the cost of electricity to existing ratepayers. A revised State Implementation Plan for NOx was submitted to EPA. The revised regulations, allowing for sale of 5 percent of the new source set aside for NOx, went into effect on July 24, 2003.

The Governor has been keenly committed to the development of a 20-year energy plan and adoption of state initiatives and programs to implement a long-term energy plan for the Commonwealth. Promoting Kentucky's energy sector, both domestically and internationally must remain a high priority as well as a long-term commitment of the Commonwealth.

IMPROVING QUALITY OF LIFE

6.6 Forestry Initiative

I. ***CHALLENGE:*** To promote economic development in the Commonwealth through sustainable forestry initiatives.

II. ***GOVERNOR PATTON'S POSITION:*** Governor Patton recognizes the importance of Kentucky's forest resources as renewable resources that contribute substantially to Kentucky's economy. Fifty percent of the state's total land area is forestland with over 90 percent in private ownership. The forest product industry comprises about 22 percent of the state's manufacturing base and is vital to many counties' economies. Statewide, forest product industries contribute more than $4 billion annually to our economy, not including forest-related outdoor recreational activities. Governor Patton believes the contribution of forest products to the state's economy can be increased substantially without damaging the environment.

III. ***PROCESS AND APPROACH:***

- In the Spring of 1996, the Governor directed the Natural Resources and Environmental Protection Cabinet to develop forestry legislation for the 1998 General Assembly to address the conservation and sustainability of Kentucky's forests. The cabinet developed and the Governor proposed the 1998 Kentucky Forest Conservation Act to: 1) address timber harvesting; 2) require best management practices (BMPs) to protect water quality; 3) provide timely and continuous forest inventories; 4) implement education programs for landowners and the public; and 5) develop forest stewardship incentives. The Act passed with amendments, and Governor Patton signed it into law on April 15, 1998.

- The Act had been preceded by several forest-related economic development reports, including: AG Project 2000, the Economic Development Cabinet's Strategic Plan, and "Kentucky's Forest Resources: Our Growing Future."

- Additional, recent efforts to increase the role of forests in economic development include:

  - Development and expansion of the value-added, secondary wood industries through the efforts of the Kentucky Wood Products Competitiveness Corporation, the University of Kentucky Extension

Service, the Kentucky Forest Industries Association, the Economic Development Cabinet, and other groups working toward this goal.

- Tools for the promotion of the development of wood products industries consistent with sustaining productivity through the Economic Development Cabinet's Forest Products Council.

- Expansion of forest management and stewardship programs to private landowners. The Division of Forestry's Forest Stewardship Program is the best in the South and one of the best in the nation. Since its inception in 1991, 10,000 plans have been prepared for over one million acres. Application for funds under the new Farm Bill's Forest Land Enhancement Program, fines for BMP violations under KRS 149, and potential tobacco settlement grant allocations will all be devoted to incentive grants that encourage implementation of the stewardship plans on private lands.

- Promotion of recycling, reduction, and reuse of wood residues and development of residue use for energy generation, including co-firing wood with coal.

- Promotion of forest-related outdoor recreation and tourism.

- Promotion of forestry education with an emphasis on landowner outreach.

IV. ***LEADERSHIP AND CONTACT PERSONS: Henry C. List, Secretary of the Natural Resources and Environmental Protection Cabinet*** (ph. 564-3350); ***Hugh N. Archer, Commissioner, Department for Natural Resources*** (ph. 564-2184); ***Leah W. MacSwords, Director, Division of Forestry*** (ph. 564-4496).

V. ***GOALS AND TIMEFRAME:*** Implementation of the Forest Conservation Act began in May 1998. An Education and Stewardship Branch of the Division of Forestry was created in July 1998. The forest inventory began in February 1999 in cooperation with the U.S. Forest Service. Full implementation of the Act occurred in July 2000 as the Master Logger Program and the requirement for best management practices on timber harvests went into effect.

The Division of Forestry has been involved in discussions with the Department of Agriculture and the Governor's Office for Agriculture Development regarding the promotion of forest stewardship practices and diversification of forest products.

Since July 2000 the Division of Forestry has inspected over 4,000 commercial timber-harvesting operations. Less than 1 percent has reached the final penalty phase of the four-step process required by the Kentucky Forest Conservation Act.

Since 1992, the Division of Forestry, in partnership with the University of Kentucky and the Kentucky Forest Industries Association, has trained over 5,193 master loggers.

The Division of Forestry has completed the baseline data collection for the forest inventory and is awaiting the data analysis and report from the USDA Forest Service. The division is now collecting data for the annual report.

Governor Patton established the Wildland Fire and Arson Prevention Task Force in 2000. This task force received a national award for its innovative and aggressive approach to attacking the wildland fire problems in Kentucky.

The Division of Forestry hosted the Governor's Summit on Wildland Fire and Arson in October 2002. More than 150 people attended to address the constant threat of wildfire and the related costs to the forest resources, economy, forest industry, personal health and safety of the citizens of the Commonwealth as well as firefighters.

The Division of Forestry will be actively involved in implementing the new federal Forest Land Enhancement Program, a cost share program for private forest landowners that encourages afforestation, reforestation, wildlife habitat restoration, ecosystem management, riparian restoration, invasive species removal, and use of best management practices. Kentucky is slated to receive $500,000 for this program. Full implementation is scheduled for the Fall of 2003.

The other listed initiatives will continue into the 21st century.

IMPROVING QUALITY OF LIFE

6.7 Smart Growth Strategy

I. ***CHALLENGE:*** To preserve and improve Kentucky's unique "quality of place" so that we may successfully compete for jobs in the new economy, where technology allows companies to locate virtually anywhere. These efforts complement our investments in education to provide a skilled workforce that, combined with an attractive, clean setting with a high quality of life, will lead to Kentucky's future economic success.

II. ***GOVERNOR PATTON'S POSITION:*** Planning is critical to Kentucky communities as they work to: 1) ensure that infrastructure and services can handle increased development; while 2) preserving Kentucky's unique rural landscapes, as well as historic and natural treasures; and 3) revitalizing our downtowns so that they can again be the economic and cultural centers of our communities.

Governor Patton is thoroughly committed to preserving Kentucky's unique and beautiful character. According to a study by the American Planning Association, in 1982, about a third of an acre was developed for every person living in Kentucky. By the end of the last decade, that figure had jumped to one-half acre per person. Unfortunately, not all of this growth has been well planned – in our urban areas; the rate of land development has far exceeded the rate of population increase. The American Planning Association also found that Kentucky is developing its land more rapidly per capita than any state except West Virginia. The problems and frustrations associated with urban sprawl, suburban over-expansion, and increases in travel time and expense have garnered much national attention and have sparked a vigorous public debate about the lifestyle costs associated with growth. The Governor recognizes the concerns of some Kentuckians about smart growth and does not advocate a policy which dictates to communities how changes in the way they grow should occur. The Governor respects personal property rights and the importance of local decision-making. The state's role should be to lead by example and provide technical assistance to localities, as well as provide funding for the preservation of land, educational programs and planning initiatives. In many areas of Kentucky, growth has led to poorly planned incursions into rural or agricultural areas that prompt the construction of new buildings when historic structures are standing vacant in declining downtowns. The Governor envisions that a program to deal with these issues should also address efforts to preserve areas of rural character, preserve ecological treasures such as Black Mountain (Kentucky's highest elevation which has coal reserves near its peak), regulate non-coal mining and oil and gas well drilling particularly in the vicinity of some of our most ecologically sensitive areas like Pine Mountain, regulate the siting of cell towers and merchant power plants, and revitalize Brownfield areas near our urban cores.

III. *PROCESS AND APPROACH:* Governor Patton has been a leader in raising the issue of quality growth for the Commonwealth and providing the opportunity for public discussion and debate. Comprehensive legislation was introduced on this subject in the 2000 Regular Session of the General Assembly, but failed to get out of committee in large measure due to the expressed desire of many in the General Assembly to study the issue further and learn more about the topic. The Governor supported House Bill 55 which was enacted by the 2001 General Assembly. This bill requires planning commissioners, members of boards of adjustments, planning professionals, zoning administrators, and other zoning officials to complete mandatory training programs. This legislation was the first such measure to be enacted by any state.

A working team within the administration was formed to examine possible solutions and to present to the Governor the budgetary implications of potential programs. Areas evaluated for potential action included: 1) having the state play a greater role in coordinating local planning efforts ensuring that counties and communities have a strategic growth plan in place; 2) helping local governments hire certified planning experts; 3) setting up state funds to help purchase development rights and preserve ecological treasures; 4) making certain future development occurs in areas where there are adequate urban services; and 5) exploring possible tax incentives for businesses willing to return to urban Brownfield areas.

In May 2001 Governor Patton established the Governor's Smart Growth Task Force which outlined over 60 options that addressed issues related to growth and land use. The Task Force, which presented its report in November 2001, held public forums in each of the Commonwealth's Area Development Districts and conducted a thorough review of Kentucky's growth-related statutes, regulations and programs. It reached several conclusions about the guiding principles for Smart Growth in the Commonwealth:

- Smart Growth should emphasize incentives, not mandates;

- Property rights must be respected;

- Smart Growth principles recognize that quality of place is directly related to quality of life;

- Smart Growth is an economic development strategy. There are economic advantages to protecting and enhancing the quality of life for all our citizens;

- Transportation, utilities, schools, public services, and land use must be considered together as development decisions are made;

- Smart Growth recognizes local control of the decision-making process;

- Smart Growth is pro-growth and recognizes the value and desirability of planned and coordinated growth. A no-growth approach represents a threat to our future economic prosperity;

- Kentucky has valuable resources and assets – agricultural, historic, natural, and cultural – that need protection;

- Smart Growth will benefit all Kentuckians and every community;

- Smart Growth increases the number of choices we have when making decisions related to growth and development;

- State government's role is to provide support, coordination, and a framework that communities may follow in Smart Growth planning;

- Smart Growth reduces per-capita costs of providing public services to a growing population; and

- Smart Growth will require a sustained commitment for success.

In January 2002, the Governor unveiled his Smart Growth Action Agenda, which was introduced as House Bill 600 in the 2002 General Assembly. This ambitious legislation would have established a state planning assistance office to coordinate and staff services for, and advise the State Planning Committee. This office would also provide a one-stop resource site for local communities; provide technical assistance to local communities; promote training and continuing education; and develop a public education campaign on Smart Growth principles. House Bill 600 also directed the State Planning Committee to review siting of state projects in excess of $2 million or which affect 50 acres or more of prime farmland; review state policies and programs that relate to or affect land use; review infrastructure and capital development plans for long-term impact; and provide support and recommendations to the Governor's Executive Cabinet. Finally, the legislation would have created tax credits to promote the rehabilitation of historic properties; new construction in historic districts; and redevelopment of distressed areas. The legislation failed to pass the General Assembly.

In conjunction with his action agenda, the Governor issued Executive Order 2002-112 which implements additional, more specific recommendations made by the Smart Growth Task Force including the following:

- Directs the Finance and Administration Cabinet to establish siting criteria and design guidelines for public facilities with state funding;

- Directs the Board of Housing, Buildings and Construction to develop a plan to promote economical rehabilitation of aging buildings through the use of "smart codes," changes in building codes that encourage renovation;

- Urges the Kentucky Board of Education to support the concept of smart growth in school siting criteria; and

- Creates the Brownfields Task Force to coordinate and promote Brownfield redevelopment.

Also in 2002 Governor Patton created the Kentucky Progress Commission to:

- Continue the dialogue between the diverse interests having a stake in Kentucky's growth;

- Serve as an advocacy group;

- Work to raise public awareness on the importance of quality growth;

- Advise the Governor on smart growth strategies; and

- Develop private support so it can become a freestanding, non-profit entity.

Other initiatives of the Patton Administration which relate to quality growth for the Commonwealth include the establishment of the Renaissance Kentucky program to revitalize Kentucky's downtowns; passage in the 2002 General Assembly of solid waste legislation to clean up the environment of the Commonwealth; and legislation that will establish the Pine Mountain Trail State Park. In addition, the Governor signed into law House Bill 270 which calls for local determination of cell tower siting and Senate Bill 257 which addresses the issues surrounding the siting of power plants.

Recognizing a need for education and increased public awareness on issues related to growth and land use, and the importance of visually portraying smart growth concepts, the Governor's Office sponsored an exhibit at the 2002 State Fair entitled "Building a Model for Kentucky's Future." The exhibit used models to demonstrate the choices communities can make as they grow and the consequences that can result from those choices. The Fair Board estimated over 300,000 people visited the 2002 Land Odyssey exhibition at the fair where "Building a Model for Kentucky's Future" was located. The exhibit is now available to travel to appropriate venues.

The first Youth Environmental Summit was held May 13, 2003, at Midway College. High school students from across the Commonwealth looked at issues of community planning, the environment, and economic development with a special focus on how growth has impacted how their communities look. Next year's summit will explore transportation issues and their impact on the environment.

Talks have begun with the Lexington-Fayette Urban County Government on planning for the potential development of the Eastern State Hospital site, which the Cabinet for Health Services will be vacating in the near future. It is hoped that the development of the site will be a model for a public-private partnerships using smart growth principles.

IV. ***LEADERSHIP AND CONTACT PERSONS: Ed Ford, Secretary of the Governor's Executive Cabinet*** (ph. 564-2611).

V. ***GOALS AND TIMEFRAME:*** Governor Patton remains committed to ensuring that Kentucky grows in ways that preserve our unique heritage and quality of life. He wants to keep the issue of "smart growth" alive for years beyond his administration and has challenged the Kentucky Progress Commission to cultivate enough private support to perpetuate itself and continue to address the issue of quality growth in the Commonwealth.

IMPROVING QUALITY OF LIFE

6.8 Security and Public Safety/Transportation

I. ***CHALLENGE:*** To strengthen security and residency requirements in the driver's license and Commercial Driver's License (CDL) issuance process, and enhance commercial driver's license school curriculum requirements and testing, which will improve public safety on Kentucky's highways.

II. ***GOVERNOR PATTON'S POSITION:*** The terrorist attacks of September 11, 2001, have intensified the focus on homeland security in the United States. House Bills 188, 189, 190 were concerted efforts to strengthen security requirements to obtain a driver's license, a CDL and promote public safety on Kentucky's highways by enhancing commercial driver's school standards. The Patton administration initiated this legislation, coordinated with key legislators, and successfully passed such legislation.

III. ***PROCESS AND APPROACH:*** In 2002, the Patton administration initiated a series of legislation concerning security and public safety issues on Kentucky's highways. Such legislation was approved by the General Assembly and the Governor signed it into law.

House Bill 188 required all new driver's license applicants to demonstrate residency in the state, i.e., utility bill, lease agreement, before obtaining a license. Non-U.S. citizens are now required to have their INS documentation authenticated and verified by one of the 12 Kentucky Transportation Cabinet (KYTC) field offices. Due to the complexity of the documents, KYTC has intervened to assist circuit clerks to review INS documents before a non-U.S. citizen may obtain a driver's license. The previous process was too lax and vulnerable to fraud. Finally, the expiration of the driver's license will correspond to the expiration of the non-U.S. citizen's INS documents.

House Bills 189 and 190 were, also, enacted by the 2002 General Assembly. Primarily, this legislation centered around increasing standards to obtain a CDL and strengthening commercial driving school requirements. Procedures have been established by Kentucky State Police (KSP) ensuring an arms-length relationship between third party skills testers and owners, officers, or employees of a truck-driving program. Non-Kentucky residents are to be issued a one-year provisional CDL license rather than a four-year Kentucky license. Moreover, a CDL applicant is now required to have a criminal background check prior to the issuance of a CDL. Finally, the commercial driver licensing school must offer a 160-hour curriculum approved by the KSP.

IV. ***LEADERSHIP AND CONTACT PERSONS: Margaret S. Plattner, Deputy Commissioner, Department of Vehicle Regulation, Transportation Cabinet*** (ph. 564-7000); ***Gary Brunker, Director, Division of Driver Licensing, Department of Vehicle Regulation*** (ph. 564-8114).

V. ***GOALS AND TIMETABLE:*** The Transportation Cabinet's, Division of Driver Licensing, is responsible for implementation of House Bill 188. Implementation was achieved in the Fall of 2002. KSP is responsible for implementation of House Bills 189 and 190. Since there were additional funding requirements for House Bill 188 and the new driver's license, which includes state of the art security features, a driver's license fee increase is needed and should be strongly considered by the Executive Branch and the General Assembly.